

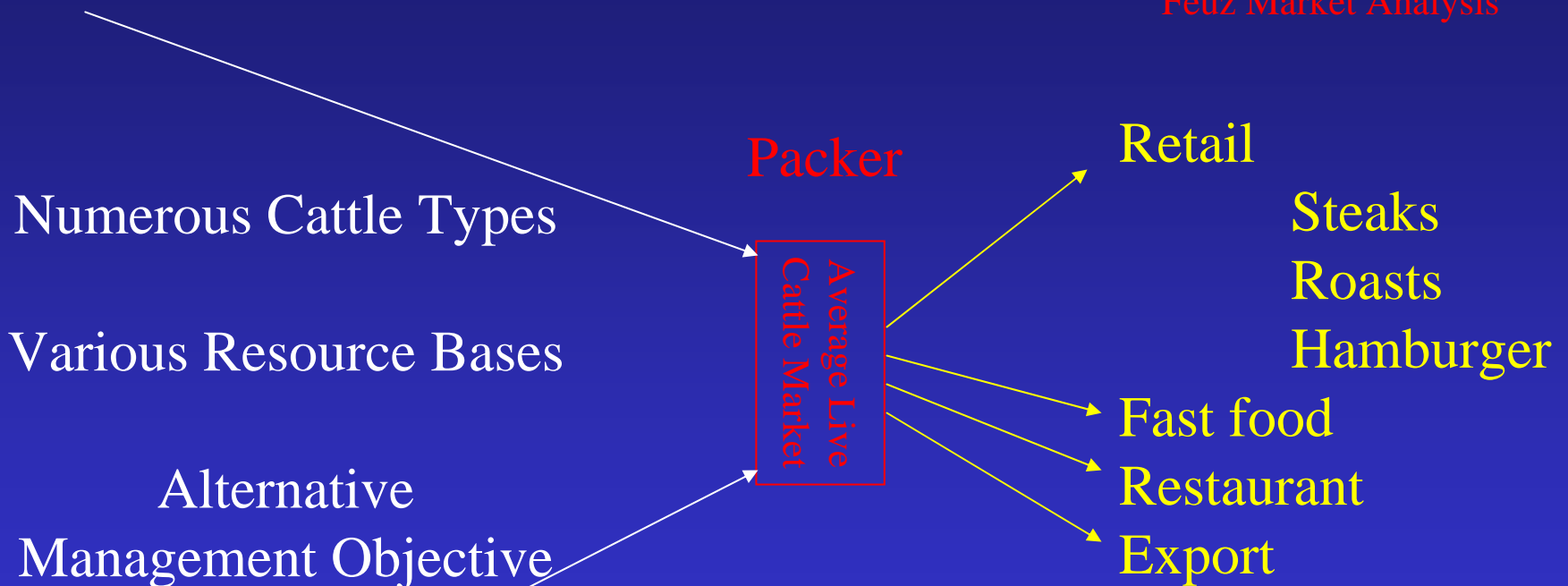
# **Beef Industry: Commodity vs Product**

**Presented at  
Kearney, Nebraska  
December 3, 2002**

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# Commodity Industry

Feuz Market Analysis



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# Commodity Industry Average Pricing

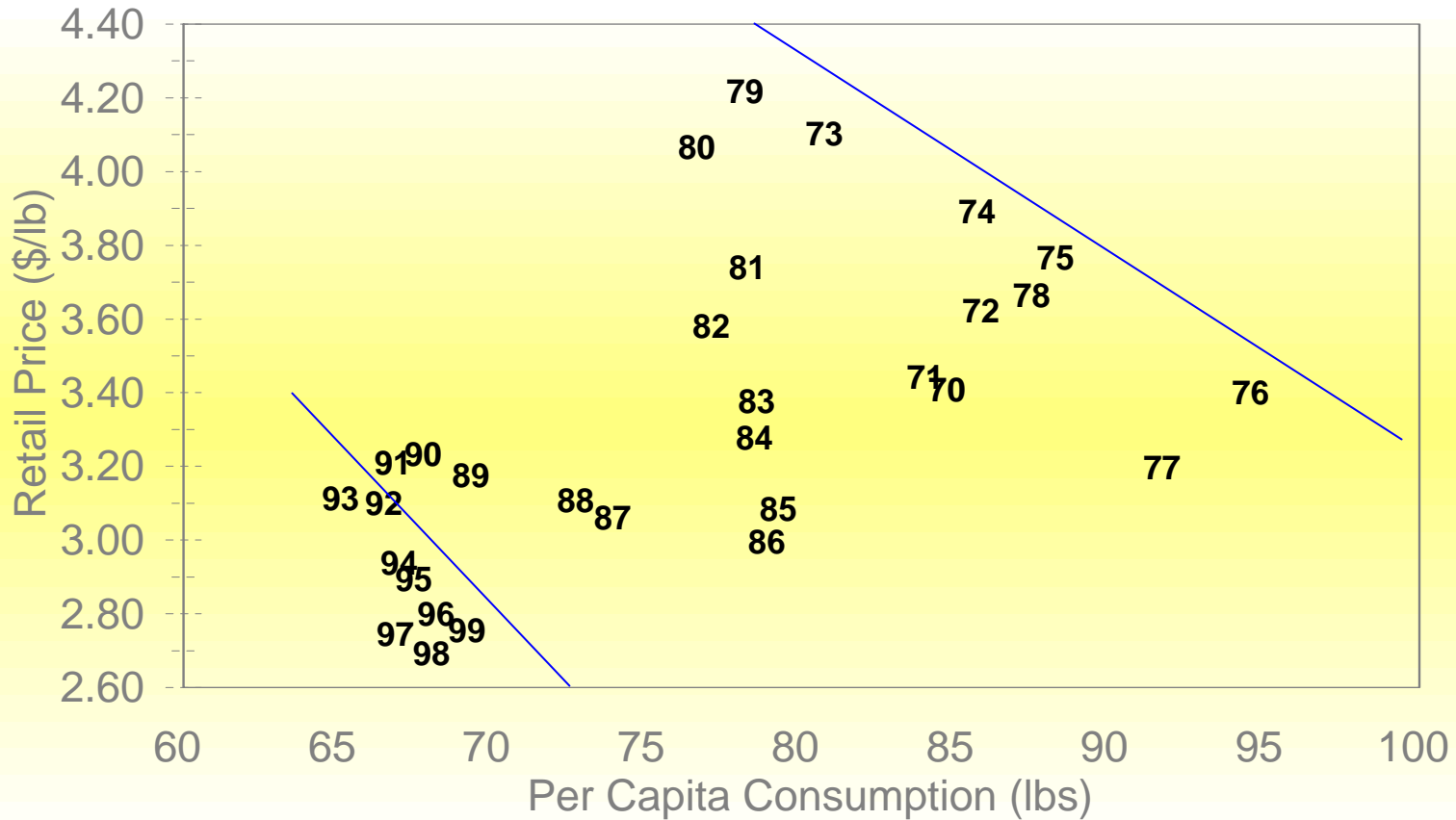
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Feuz Market Analysis

- Fails to send market signals from consumers to producers
- Little reward for producing consistent, high quality beef
- Limited discount for producing inconsistent, poor quality beef
- **Result – Loss of Demand**

# Beef Demand

Feuz Market Analysis



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# Product Industry

Feuz Market Analysis

Packers

Example Cattle Markets



# Product Industry Coordinated Pricing

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Feuz Market Analysis

- Supply Chain Management
- Vertical Alliances
- Pricing Grids and Formulas
- Increased Branded Products
  
- **Potential Result – Loss of Spot Market**

# Branded Product Marketing

Feuz Market Analysis

Management

Origin

Tenderness

Shelf-life

Safety



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# Branded Beef Products

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Feuz Market Analysis

- Consistent Quality
- Consistent Supply
- Sufficient Volume

# Present Industry

# Sorting into Uniform Sale Groups

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# Carcass Merit Pricing

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## Quality Grades

Marbling  
Maturity

## Yield Grades

Fat  
Muscling  
Weight



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# Value Based Marketing

Feuz Market Analysis

- **Price based on individual animal carcass merit**
  - **Quality Grade**
  - **Yield Grade**
  - **Conformance**
- **Seller bears risk of Dressing Percent**
- **Seller bears risk of quality grade & yield grade**

# Example Grid

## Prices in \$/cwt Carcass

Feuz Market Analysis

	YG 1	YG 2	YG 3	YG 4	YG 5
Prime	8.00	7.00	6.00	-14.00	-19.00
CAB	3.00				
Choice	2.00			-20.00	-25.00
Select			-7.00	-27.00	-32.00
Standard	-20.00	-21.00	-22.00	-27.00	-32.00
Non-Conforming	-20.00				

# Beef Industry

## Commodity vs. Product

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Feuz Market Analysis

- Many of the contentious issues facing the beef industry are a result of differences in business philosophy
- Are you a Commodity producer?
- Are you a Product supplier?
- Optimal production goals and marketing strategies differ with the two philosophies

# Commodity

# Product

Feuz Market Analysis

- Low cost producer
  - Need competitive cash markets
    - Many buyers & sellers
    - Market information
  - Price (value) established at various producer levels
- Differentiated Product
  - Coordinated supply chain
    - Vertically integrated
    - Equitable contracts
  - Price (value) established at consumer level

# The Problem

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Feuz Market Analysis

- There are producers and processors who prefer a commodity industry
- There are producers and processors who prefer a product industry
- There are producers and processors who are trying to do both
- **This is not working!**

# Commodity Response to loss of Demand

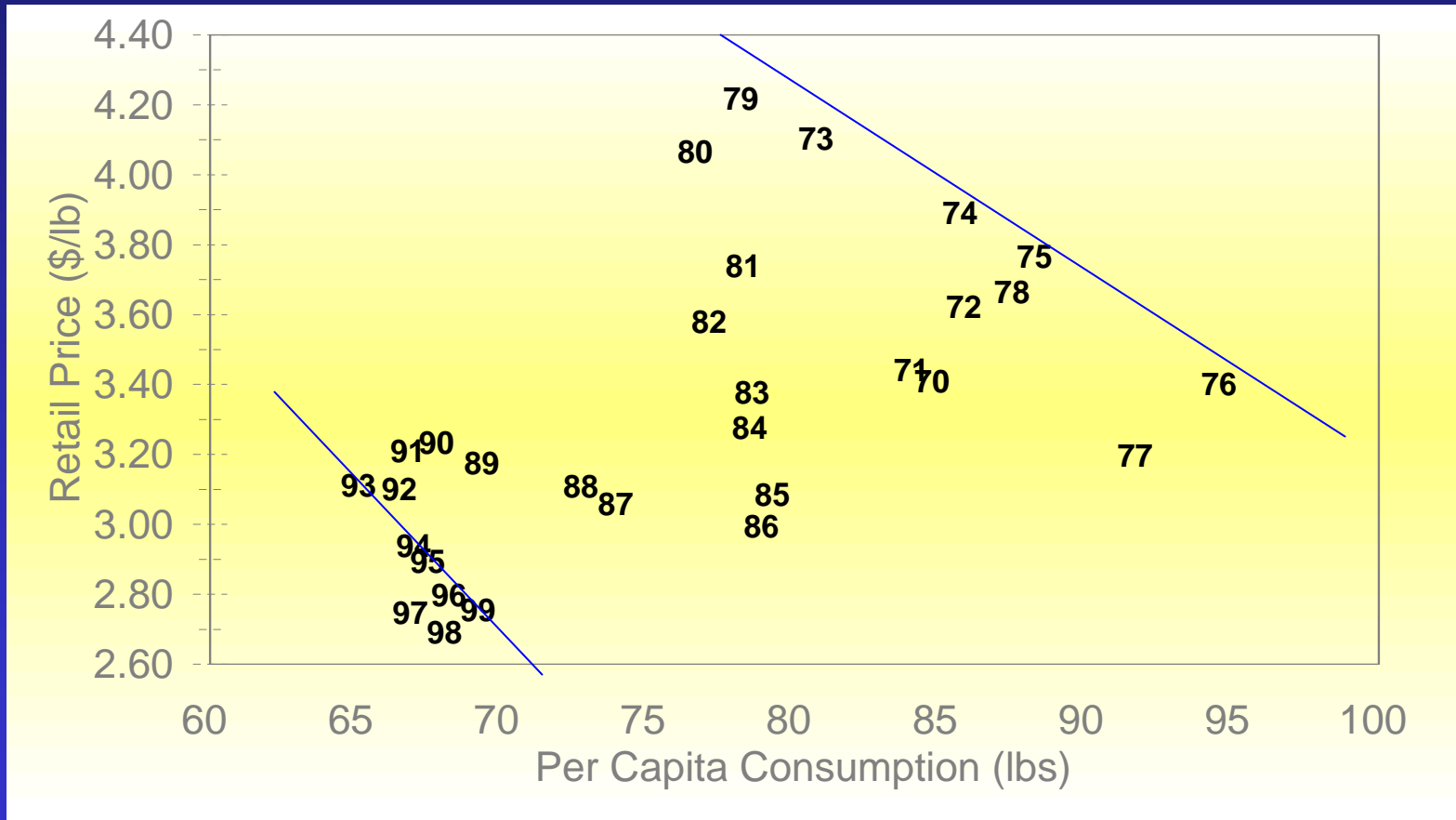
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Feuz Market Analysis

- Be low cost producer
- Get larger, operate on smaller margins

# Beef Demand

Feuz Market Analysis



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# Product Supplier Response to loss of Demand

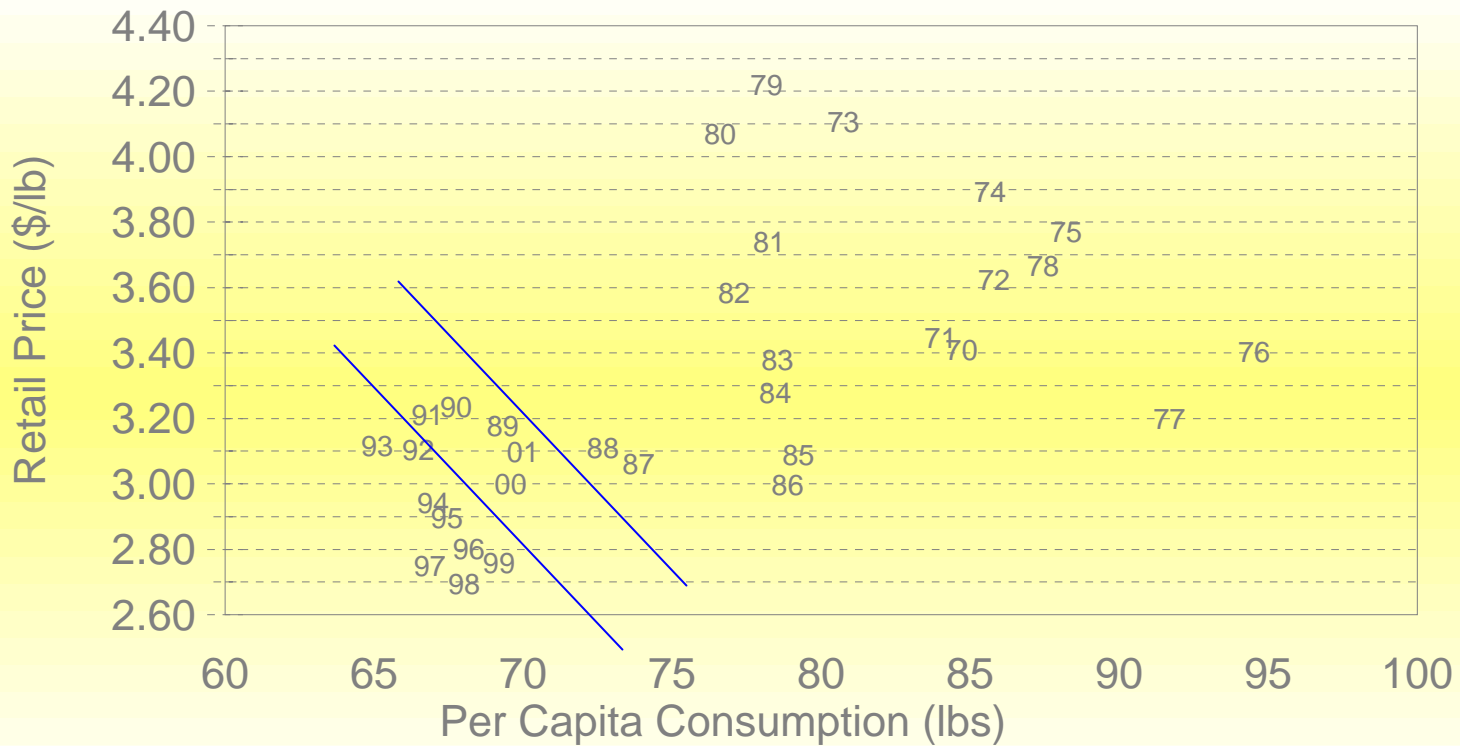
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Feuz Market Analysis

- Understand what consumer wants
- Produce product for specific consumer
- Looked for alternative to Spot Market to be rewarded for producing specific product
  - Formulas
  - Grids
  - Alliances

# Beef Demand

Feuz Market Analysis



# Commodity Response to Loss of Spot Market

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Feuz Market Analysis

- Seek Protection under current Packers and Stockyards Administration Rules
- Support new legislation on mandatory price reporting
- Support new legislation on banning packer ownership and control of cattle

# Product response to loss of Spot Market

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Feuz Market Analysis

- Look for alternative pricing points
- Establish vertical linkages with packers, processors and retailers
- Oppose mandatory price reporting legislation
- Oppose new legislation that would restrict their ability to contract with packers

# Policy Issues

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Feuz Market Analysis

- Many of these issues are a result of the conflict between those who prefer a commodity industry versus those who are trying to move into a product industry.
- Mandatory Price Reporting
- Packer ownership and control of cattle

# Summary

Feuz Market Analysis

- **I'm not sure the beef industry can survive as both a commodity and a product industry**
- **Consumers demand more specific products**
- **Specific products require greater supply chain coordination**
- **Supply Chain coordination reduces need for spot market**
- **Commodity industry needs a spot market**
- **I'm not convinced that legislation can solve the problem**