Beef Industry Returns
Fed Cattle Packers

Dollars per head


Packer

Beef Industry Returns

Feedlots

Dollars per head

Value Added by Manufacture

Percent of Material Cost

1990

- Meat Packing: 14.9%
- Meat Processing: 39.4%
- Poultry Processing: 44.5%

2001

- Meat Packing: 20.3%
- Meat Processing: 62.4%
- Poultry Processing: 84.6%
Sales, Expenses, & Operating Income

Pct of Sales - 4 Largest Meat Packers

1994

- Operating income before taxes: 2.11%
- Total operating expenses: 12.49%
- Gross Income: 14.59%

2000

- Operating income before taxes: 1.47%
- Total operating expenses: 17.05%
- Gross Income: 18.52%
Average Weekly Earnings

1990
- Poultry Processing: $334.93
- Meat Processing: $387.54
- Meat Packing: $263.99

2002
- Poultry Processing: $399.19
- Meat Processing: $496.99
- Meat Packing: $472.06
Consolidation is a driving force in the livestock and meat industries.

- Increasing cost of regulation.

- In addition to higher operating costs, packers have been faced with a declining cattle supply as drought and economics have led to significant herd liquidation.
Cattle producers have liquidated herds for 8 years due to drought & economics.

Herd liquidation typically lasts 4 years.

Lowest inventory in 4 decades
Beef Production per Calf
Consolidation is a driving force in the livestock and meat industries.

- Added costs generally cannot be “pushed through the market”.

- Consequently, they must be offset through production efficiencies, yields, the value from by-product recovery, or simply “producing more for less”.
Plant Size and Slaughter Share
2002

Cattle

Under 50,000 head

Plants: 90.9%
Slaughter: 3.2%

Over 50,000 head

Plants: 96.8%
Slaughter: 9.1%
Fed Beef Packer Concentration

IBP / Tyson 31.6%
Swift & Co. 16.5%
Excel 18.9%
National Beef Packing 8.2%
Smithfield 5.7%
Other 19.1%
Cow Packer Concentration

- Rosens 17.3%
- Swift & Co. 10.9%
- Emmpak/Excel 6.8%
- Shapiro 6.6%
- Smithfield 8.4%
- Other 50.0%
World Beef Export Share
2002

U.S. 17%
Australia 21%
Brazil 14%
Canada 10%
New Zealand 8%
Other 30%
U.S. Beef Trade

- 2003: Exports +5%, Imports -9%
- 2004: Exports -61%, Imports +10%

Million pounds

Beef Industry Returns

Fed Cattle Packers

Dollars per head

2003
2004
1998-2002 Average

1/4/03  3/15/03  5/24/03  8/2/03  10/11/03  12/20/03

12345678910111213141516171819202122232425262728293031
12345678910111213141516171819202122232425262728293031
0 25 50 75 100 125 150 175 2003 2004
The Margin Equation

• Value
  – Domestic
  – Export
  – By Products

• Operating & Fixed Costs

• Capacity & Capacity Utilization
BSE Impact Areas

• REGULATORY
  – Downer animals
  – 30 month age
  – Specified Risk Material (SRM)
  – Automated Meat Recovery (AMR)
BSE Impact Areas

• REGULATORY

Higher operating costs

Rendering value or cost

Disposal cost for items that cannot be rendered
Beef By-Product Value
Fed Cattle, per head

Dollars per head

2003
2004

1/4/03 3/15/03 5/24/03 8/2/03 10/11/03 12/20/03
BSE Impact Areas

• MARKET
  – Domestic consumer confidence
  – Export ban
  – Domestic
    • Potential ban on use of various by products in pet food and livestock and poultry feed
What is the current cost to packers?

Could range from $100 to $200 per head.
BSE Leads to Change

Markets
  Domestic
  Export

Regulatory

ID & Trace Back
The beef industry is at the forefront of tremendous structural change.

That will likely lead to a downsized, decentralized, regionally focused industry.

Marketing to well-defined markets and aligned to a source verified, traceable, supply of cattle.
In other words, . . . . . .

Closed beef systems, harvesting source-verified, quality cattle will be the rule, not the exception.
These **closed beef systems** will foster the opportunity for the industry to “produce the right product for the right market”.

But, just as important, they will also . . . . . .
Provide the best opportunity for the beef industry to manage the many critical issues it now faces,

specifically, food safety and traceability.
The industry is at the forefront of a transformation driven by food safety.

There are challenges, but there is also tremendous opportunity.

And this is why it is so important that only the BEST, AVAILABLE SCIENCE must prevail as the industry and government together tackle the critical challenges.