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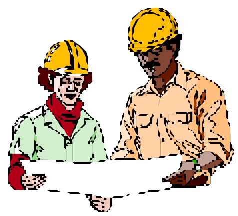
STRUCTURE OF THE CATTLE BUSINESS

One reason it is important to begin or continue to look towards the light is the inherent structure of the cattle business. The following draws from the economics section of the Beef Handbook, which was developed by the National Cattlemen's Association. Their Internet address is:

http://www.ncanet.org/ beef_handbook

The cattle business is broken down into various segments. Each segment generally sells to the next in line. These include:

- ***SEEDSTOCK —*** *produce bulls and semen for artificial insemination*
- ***COW-CALF —*** *raise calves to weaning and cows*
- ***YEARLING or STOCKER —*** *take the weaned or older calves and produce weight gain*
- ***FEEDLOTS —*** *produce finished steers and heifers for slaughter.*
- ***PACKERS —*** *process beef into wholesale cuts*
- ***RETAILERS/ RESTAURANTEURS —*** *sell beef to consumers*
- ***CONSUMERS —*** *purchase beef and consume it*



It is rare to find someone involved in all segments of the industry. For example, you may be a cow-calf producer who sometimes retains and/or purchases calves for a stocker program. You might also participate in a retained ownership program with a feedlot.

Face it, a cow-calf producer is geared toward producing calves, the feedlot operator is geared toward finishing cattle, etc. Most of us are completely cut off from the retail end.

The inherent segmentation of the cattle industry makes it hard for the individual to see a bigger picture and sometimes limits our vision of alternative opportunities.

Profile of U. S. Cattlemen

The U.S. cattle industry is predominately made up of small, family farmers and ranchers. If you look at the table below you see that over 63% of cattle owners own less than 50 cows which comprises 13.6% of total cattle numbers.

Conversely, less than one percent own over 1,000 head, yet comprise 22.7% of total cattle numbers. The average size of beef-cow herds in the United States in 1993 was 38.3 head. In California, the average herd size is 53.

On top of dealing with segmentation, the majority of producers have less than 50 cows.

Demographic

Demographics of U.S. Cattlemen

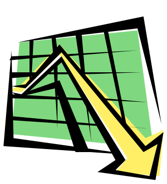
NUMBER OF HEAD IN HERD	% OF TOTAL CATTLE	% OF CATTLE OWNERS
1000+	22.7%	0.7%
500 to 999	11.1%	1.4%
100 to 499	38.5%	17.4%
50 to 99	14.1%	17.1%
1 to 49	13.6%	63.3%

Let's look at the economics:

- *Assuming a 95% conception rate on 50 cows, 47 cows would be pregnant (50 head X .95 = 47.5 head)*
- *Assuming a 95% weaning rate on those 47 cows leaves you with 44 calves (47 X .95 = 44.7)*
- *These calves were weaned at 500 pounds and sold for 60 cents per pound — and that's being optimistic. Total gross income = $13,200 (44 calves X 500 lbs. X .60 per lb. = $13,200)*
- *Assuming the direct costs to produce that calf were $200 — again being optimistic — then total direct costs would be $10,000*
- *$13,200 gross income – $10,000 direct costs = $3,200 to deal with overheads like labor and land.*

Even without overheads, you **cannot** survive on $3,200 per year. While these are made up figures, they illustrate that a majority of cattle producers need off-farm income to financially survive.

These producers may be in the business for a myriad of reasons that are all valid. However, their ability to weather a period of low prices is much greater than someone deriving their sole income from cattle.



The converse also affects you. With 22% of the total number of head owned by less than 1% of producers, there is the potential for influencing a number of factors. The ability to store and dump cattle on the market effects every segment of the beef industry.

Production and Sales

Production and sales operate in a free market. Prices are determined by supply and demand.

- ***Nearly one-fourth of all farm income*** *($174.4 billion in 1993)* ***is derived from sales of cattle and calves — $39.9 billion in 1993***
- ***Beef production tops all other forms of U.S. meat production by nearly a four to one margin*** *in terms of economic value*
- ***Beef sales in 1994 were $49.6 billion****, slightly less than than 1% of the $6.79 trillion Gross National Product*

In 1979, there almost 111 million total head of cattle with a total production of 21.3 billion pounds of beef. In 1995, there was almost 103 million total head of cattle with a total production of 25 billion pounds of beef.

One of the reasons for the current glut of beef on the market is that we are producing more of it with less animals.

Beef At The Consumer End

In 1976, per capita consumption of was 94.5 pounds retail weight. By 1995, that figure had dropped to 67.2 pounds.

This seems to be a stabilizing point as per capita beef consumption has hovered between 69.3 and 67.0 pounds retail weight between 1989 and 1975.

Current projections are that consumption will be in the 67 to 70 pound range for the next several years.

According to The Consumers Choice Meat Education Program developed by the USDA, American consumers are increasingly concerned with the healthfulness of their diet.

The amount of fat is of particular concern to most health conscious consumers. Consumers are also concerned about the safety and wholesomeness of meat at the supermarket.

Conclusion

There you have it, a gnats eye view of the cattle business. Basically, it is a heavily segmented industry with a lot of small producers who derive only part of their income from cattle. More beef is being produced per animal. Consumption has stabilized, but fat and food safety are primary concerns of the consumer.

Now that we are acquainted with the general structure, let's move on to the specifics of how **Back In The Black** can help.