

# Cows in Control

Special Report – Are Producers Getting Full Value for their Cattle?  
August 2020

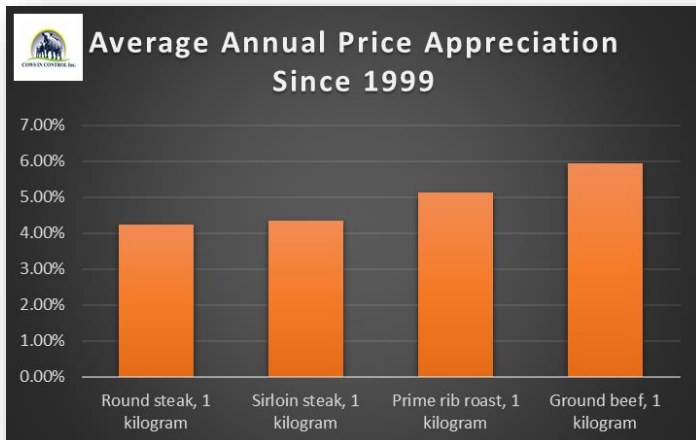
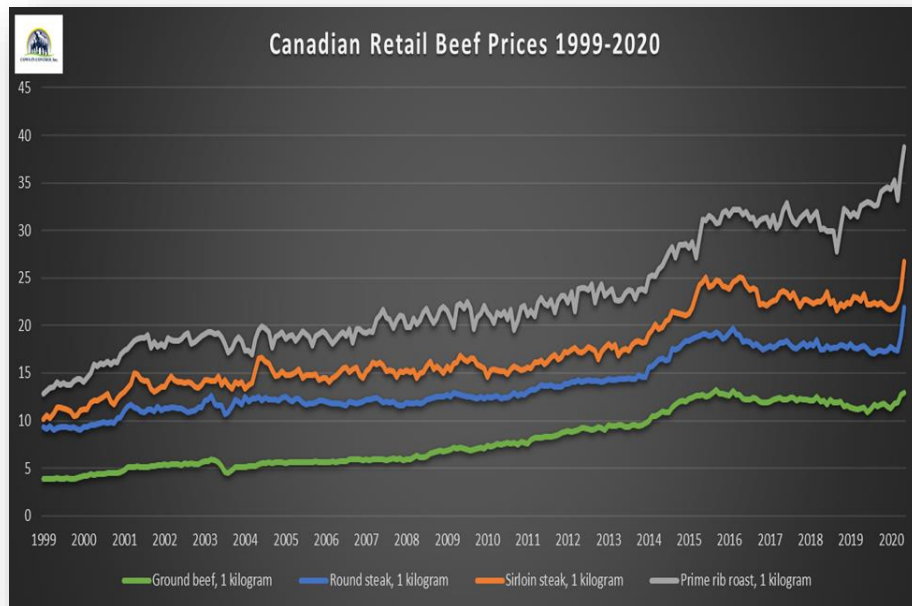


# Special Report – Understanding Beef Prices

August 1, 2020

## Historical Beef Prices

The following charts are the appreciation of the price of various cuts of beef since 1999...



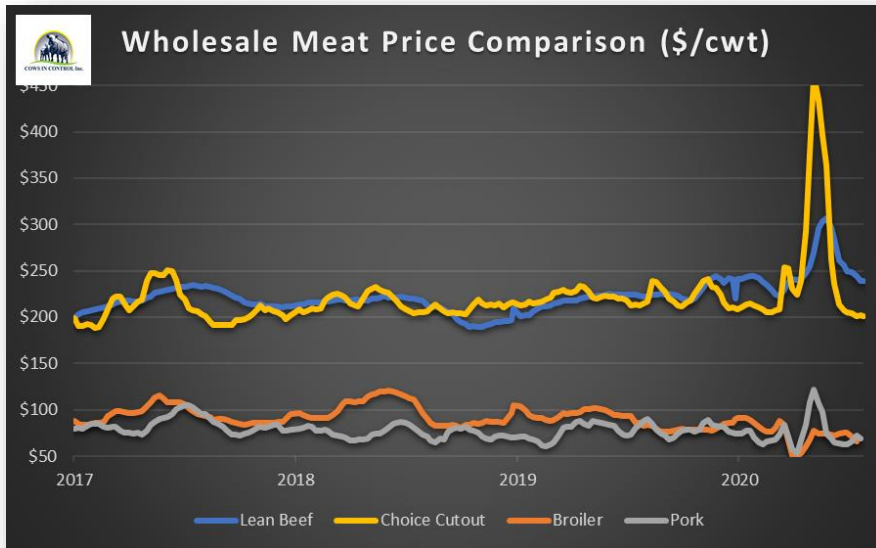
Retail beef prices in Canada have been steadily appreciating since 1999, between 4-6% annually. The fastest appreciating segment is actually ground beef. Beef has proven quite recession proof over time.



# Special Report – Understanding Beef Prices

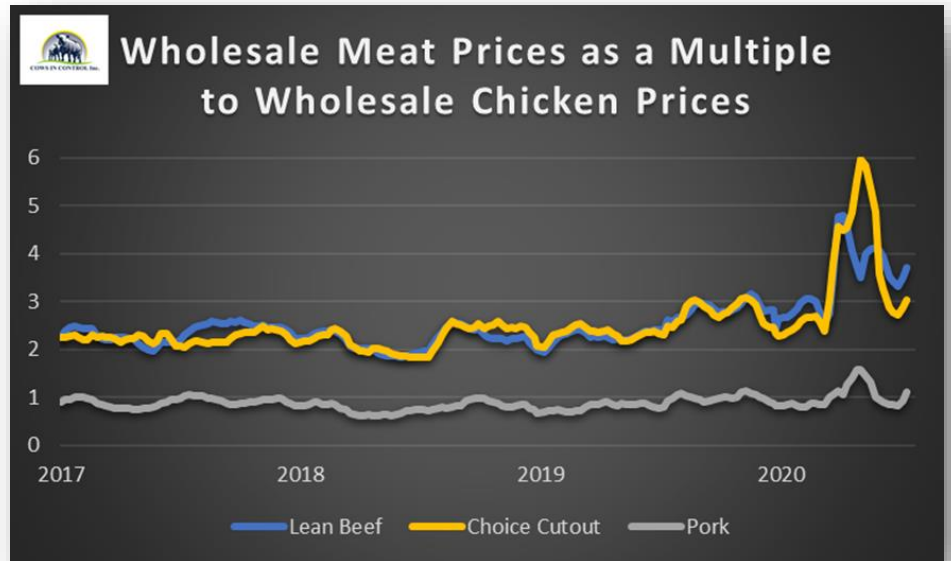
## Comparative Pricing to Other Meats

When comparing beef to other meats, lean and grain fed beef trade significantly higher than pork and chicken...



“Lean Beef” is beef from animals not finished on grain or in feedlots, “Choice Cutout” is AAA grade (grain finished) wholesale prices from the packer to the retailer, “Broiler” prices are wholesale chicken prices, and “Pork” is wholesale pork prices from the packer. The spike in prices was the supply disruption from Covid 19. Consumer prioritized beef over other items.

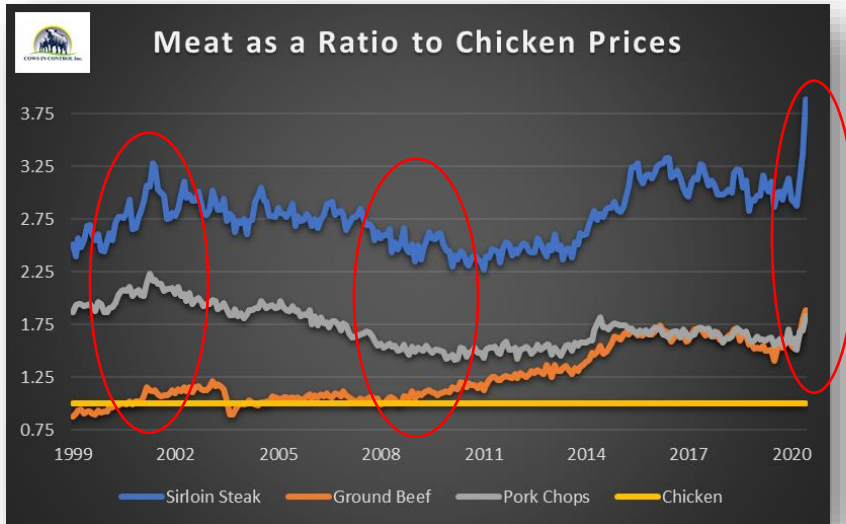
Beef generally trades 2-3X the price of chicken at a wholesale level. It is now trading 3-4X. Lean beef is outpacing grain fed beef indicating a shorter supply of “non-fed” beef (cows, grass fed) relative to the grain finished supply. Beef prices spiked to 6X chicken during Covid 19. Pork generally trades on par with wholesale chicken prices.





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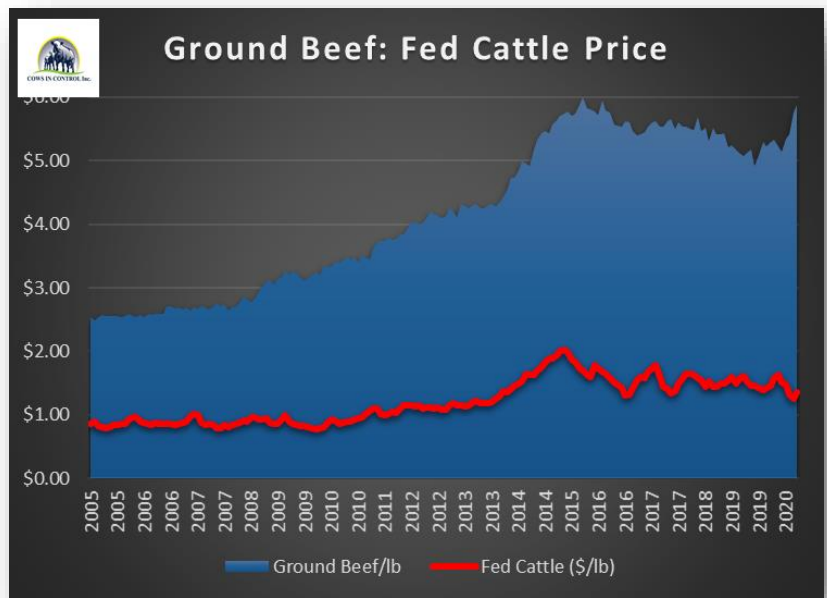
Beef is actually recession proof and is outpacing chicken in pricing power...



Beef is steadily outpacing chicken in prices at the retail level. Ironically, it accelerates or at least holds during recessions, despite beef being seen as a high value item (red circles = recessions). Pork is slowly losing relative value.

## Producers are not participating!

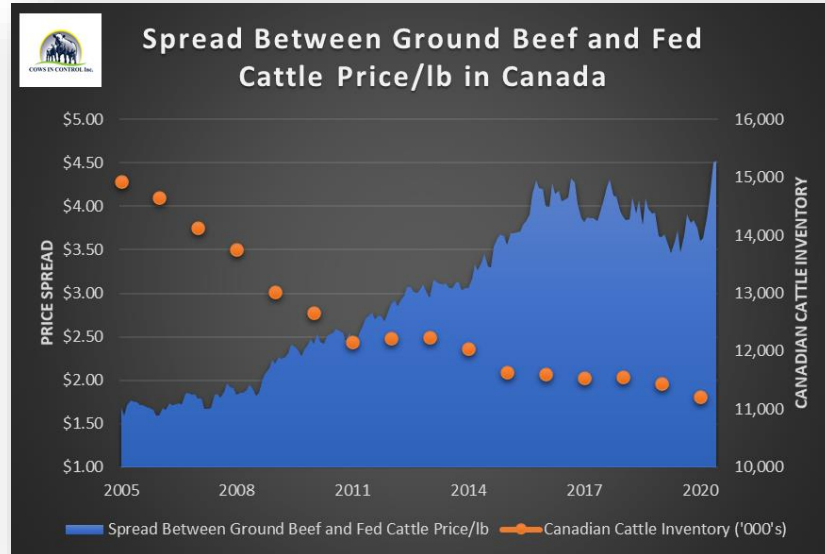
Ground beef prices at the store have greatly outpaced what ranchers receive at the ranch for their fat cattle. Producers are not participating in the increase in beef prices!



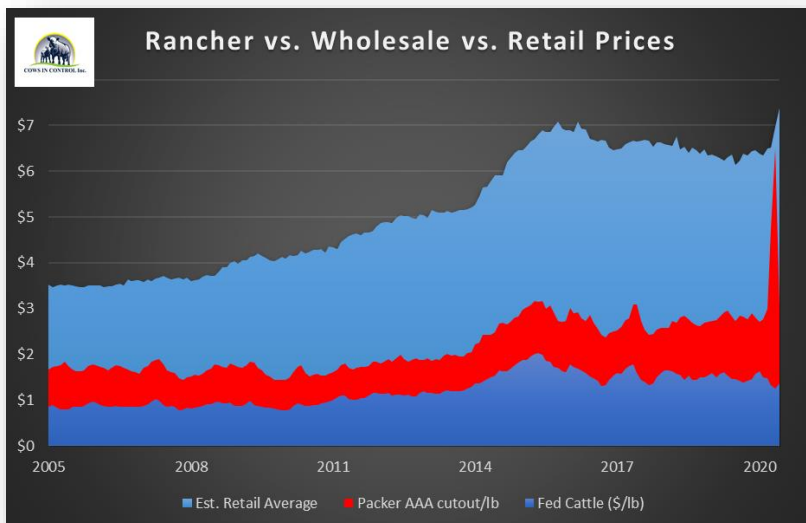


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The most alarming fact is when you look at the decreasing percentage that cattle producers are receiving over time and overlay the Canadian cattle inventories you see that the lack of margin growth for producers is causing a destruction of inventory despite retail price increases...



So who is taking all the margin?



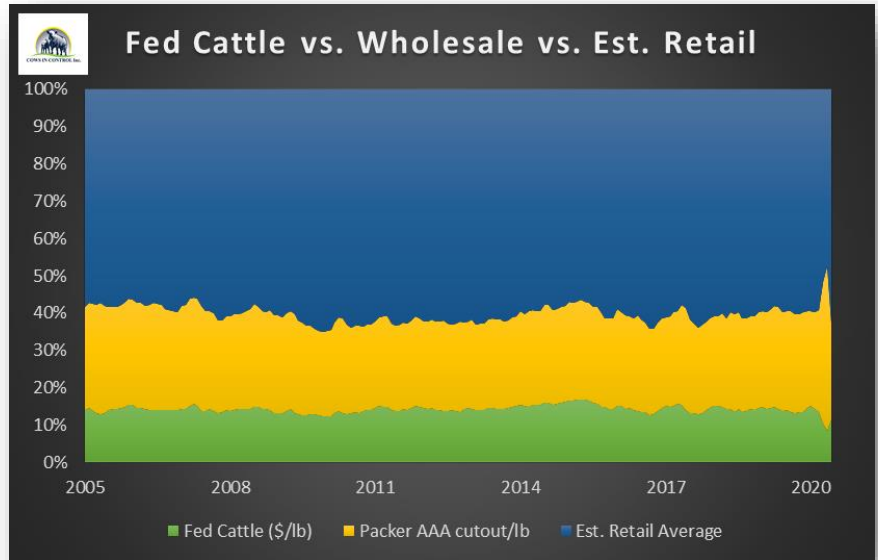
The bottom blue line is the producer price, the red line is the packer price (you can see the spike they took during Covid 19), the top blue line is an estimated average retail price



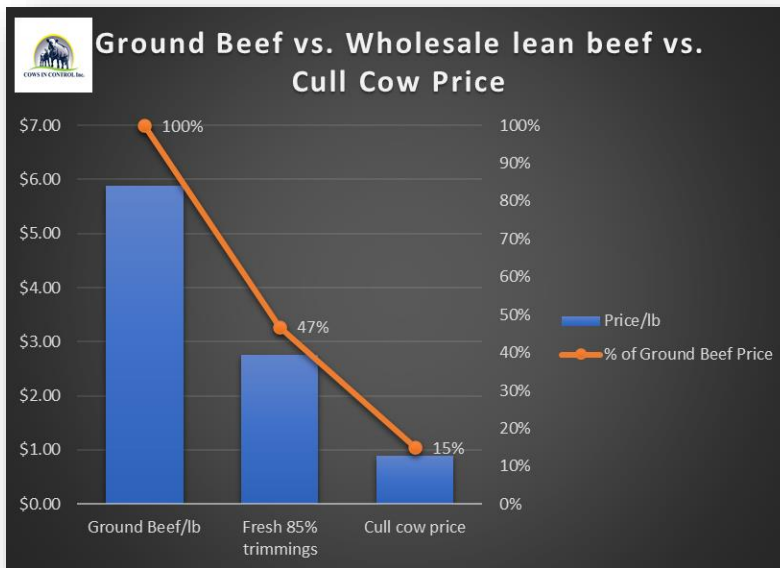
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Here is the producer's share on retail beef for fat cattle...

The producer takes about 15% of the total value of the retail price, the packer adds around 30% of value, and the retailer around 55%. This does not address margins, or yields, but the price increase created at each stage for salable meat. (Note: there often would be wholesale brokers between the packer and retail stages and 30-40% yield loss between sectors.)

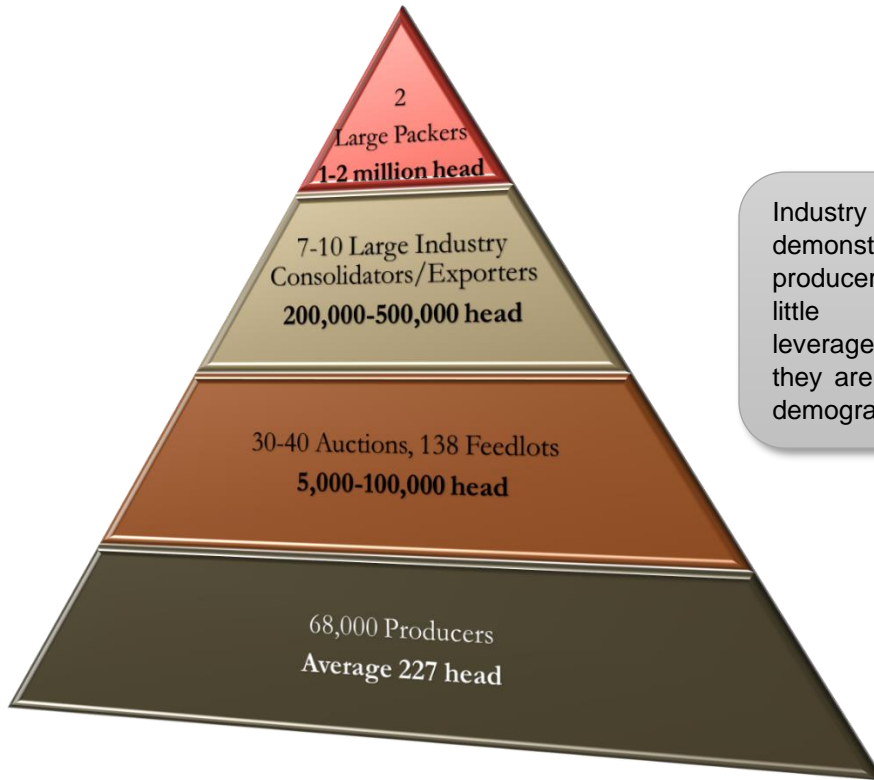


Here is the producer's share on cull cows...

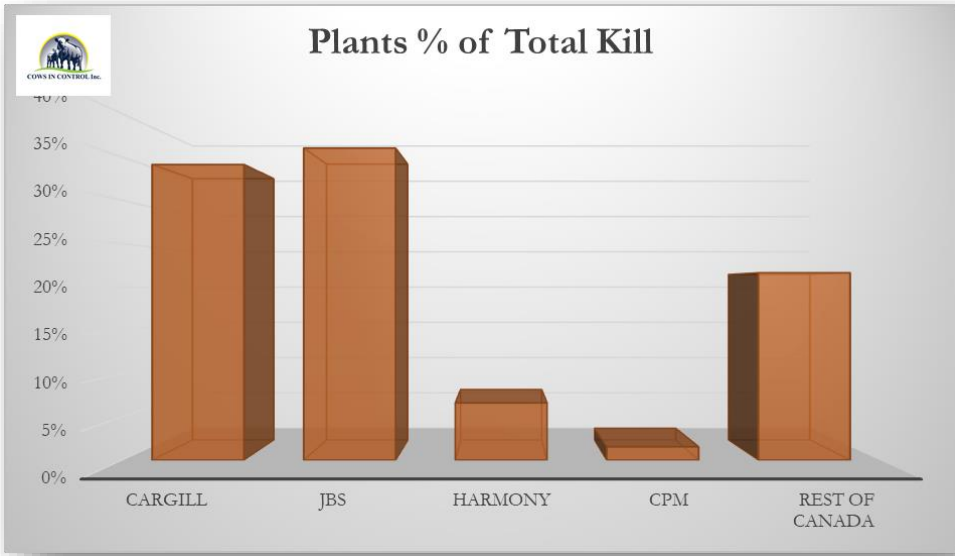


On cull cows, the rancher takes 15% of the overall value, the packer adds 30%, and the retail takes the remaining 55% uplift selling it as ground beef to the consumer.

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Industry breakdown demonstrates that producers have very little negotiating leverage though they are the largest demographic



Canada's two largest packers process over 70% of Canada's cattle, and offer no custom process options for producers or any direct connection between producers and retail consumers



# *Special Report – Understanding Beef Prices*

## Summary and Conclusions

Let's summarize the data into some **conclusions**:

1. **Retail beef prices have been appreciating 4-6% annually** since 1999
2. **Ground beef is the most rapidly appreciating percentage part of the animal**
3. Since 2019, **“lean” or “non-fed” beef has been outperforming grain-finished beef**
4. **Wholesale beef prices** traditionally trade 2-3 times chicken prices, and are now **trading 3-4 times chicken and pork**
5. **Beef prices have been increasing relative to pork and chicken**, and seem to hold or even excel in times of recession, interesting when beef is considered a “high value item”.
6. **The spread between retail prices and farm gate prices is widening rapidly** meaning the producer is getting a lesser percentage of the total retail beef return annually
7. **Canadian cattle inventories are shrinking as the producer receives a lesser percentage of the total return for beef sales**
8. **The producer takes home only 15% of the total retail value of the beef they produce.** The packer adds 30% or so of value and the retail/wholesale sectors add another 55% of value. Margins vary and are difficult to gather, so all we can look at is price appreciation at each stage.
9. **Greater than 70% of cattle are processed by large packers that offer no custom process options for producers**
10. **Consumers are searching for more food safety and connection to how food is produced**, yet have very few options for directly marketed beef from producers or even beef they can trace to the producer directly through the opaque corporate packer system

## Recommendations:

1. **Develop more regionalized, local custom packing plants** that offer producers the option of custom processing and direct marketing
2. Due to the excessive leverage of packers from concentration at the processing level, producers should **build a system that makes packers a “fee for service” business like the pipeline industry rather than buyers of their product**
3. **Packers would be paid for processing, logistics and connecting retail with producer product** in the form of a service fee to cover expenses plus margin and are offered offal and hide as an incentive
4. **Build a market and pricing mechanism that connects retail customers with willing producer sellers**, and establishes prices. This may be an app, a marketing agent, or an industry recognized “boxed beef calculator” system for conventional producers.
5. Ranch to retail beef is more traceable and offers more transparency and trust between consumer and producer. **Make “story” or “reputation” become more important than protocols. Build a communication and feedback system.** If the consumer *trusts* the producer, it may supercede the need for continually questioning “how beef is raised” but





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rather “do I trust my producer?” That gets consumers out of the decision-making position of how cattle are raised, and leaving it to producer experts to raise the beef while tailoring to consumer preferences.

6. **Regionalize beef like wine or craft breweries.** Tourism and ranch site visits allow secondary income streams for producers entertaining customers.
7. **Fully exploit localized markets and supply chains** and lessen reliance on import and export markets. Reduce susceptibility to unstable trading nations, tariff disputes, political instability or logistics issues. Local markets have shorter freight times, less “shrink” on cattle, and local promotion may prove local supply chains offer stronger margins than export nations if fully exploited. Producers and marketers may continue to opportunistically seek international markets. Canada with its strong currency, long winters, and relative high wages to other global beef producers such as Brazil, Mexico, Australia, Uruguay, is a high cost producer and has little competitive price advantage globally other than quality.
8. **Develop the small packing industry with proper capitalization.** There are few packing experts and the packing industry takes a lot of capital and risk. Engage private investment sector to get funding to the space and education programs for plant managers and processing labour.
9. **Defund oligopoly and monopoly packers.** Large packers have tremendous lobby strength and competitive advantage over smaller packers in terms of access to government funding and investment. **Lobby government for a more balanced funding and support system that encourages local custom packers.**
10. **Decommoditize beef.** Beef should not be treated as a “commodity” compared to pork and chicken as it will never compete on cost. It should also not be classified as equivalent to beef from grass finishing or warmer climate nations that produce beef far more cost effectively, but to varying quality. It should be priced based on merit, region, protocols and local market pricing. **Market signals and pricing mechanisms must be developed.** This might be apps, or more local price reporting programs.

Take care out there, we are here to assist you.

--Ryan Copithorne, and The Cows in Control team and Partners

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