THE CANADIAN CATTLEMEN'S ASSOCIATION

Calgary

March 17, 1982

"The U.S. Beef Industry in the 80's"

I am honored by having a part in the Canadian Cattlemen's 50th Anniversary Convention. This luncheon today has a special place in my lifetime activities. My grandfather, William H. Farr, left St. Thomas, Ontario, by train to go west to Greeley, Colorado. He was a young, nineteen year old, apprentice blacksmith who wanted to help build a new country. Two years ago in May 1980 the Farr family celebrated their centennial anniversary in Greeley.

Two of my sons are in business with me. They are the fourth generation in the farming-livestock business.

With the Canadian background and one hundred years of working in the livestock industry, it seems appropriate to return to Canada and help you celebrate your 50th anniversary. I know how much you have enjoyed reviewing your pioneering past and being true cattlemen you are looking forward to the challenging future.

Our family company, known as Farr Farms Company, operates irrigated farms where we grow sugar beets, potatoes, dry beans, onions, corn for both silage and grain, and alfalfa. We also own two cattle ranches which are currently operated as steer ranches. I have also
been involved with cow-calf ranches. Your town of Lethbridge, Alberta, and the surrounding country is very similar to the Greeley, Colorado, area.

The subject you assigned me to talk about is "The U.S. Beef Industry in the 80's." Given today's uncertain world economy, that is a tough assignment. If the next eight years of this decade are as tough for the cattle industry as the last two have been, not many of us will be left.

The U.S. cattle industry enjoyed 50 years of gradual, profitable growth. Our cattle population trebled. Cattle feeding became a big business. Beef was the most wanted food at both the restaurant and chain food store. The cattle industry produced over 40 percent of the agricultural income of the United States.

In the late 1970's two things happened which have changed the U.S. cattle industry. First and most important was the oil embargo of 1974 and the high price of petroleum since that time. The second major reason is that the United States as a country is now over 200 years old and the country is maturing. With this maturing, the always increasing demand for meat has also matured. The cattle industry is no longer a growth industry. It is an industry fighting
for a share of the protein dollar. The opponents are poultry, pork, fish, cheese, eggs, and milk.

These opponents are very strong. They produce good products. They have many advantages going for them. They also have some disadvantages.

Poultry is a really tough competitor. Ten weeks from the day the egg is set, a four pound broiler chicken is on the table. Two pounds of feed per pound of chicken produced—the most efficient grain conversion of any animal. The industry slaughters and packages its products all in one plant. Beautiful, table-ready packages of any cut or mixture of cuts are delivered to the large retail stores in cardboard boxes. A minimum amount of energy is needed to refrigerate the box and no skilled labor is needed to put the packages in the showcase.

Most important is the fact that broiler chicken is about 30 per cent the price of beef. Thirty years ago broilers were 80 per cent the price of beef. The industry is in very few hands. They have exploited their efficiencies to the utmost.

Pork production has also modernized and become much more efficient. They now require about four pounds of feed to produce a
POUND OF PORK. THEY ARE FOLLOWING THE LEAD OF POULTRY AND DOING MORE AND MORE PACKAGING AT THE SLAUGHTER PLANT.

Cheese, fish, and eggs are thought of as lighter foods that still supply the protein needs. Our American people have reduced their protein consumption to between 1,200 and 1,400 calories daily. With a more mature and sophisticated society there is no longer a need for up to 2,000 calories of protein.

I have outlined many of the advantages of the cattle industry's competitors and why they will continue to hold their share of the market.

Now, we need to assess the strengths and weaknesses of the cattle industry. The greatest weakness is that there are cattle in all 50 states. The 1980 census figures show there are 1,608,000 cattle owners in the U.S. Sixty-seven per cent of these owners own less than 50 head. In fact, there are only 266,000 cattle owners in the United States who own more than 100 head. However, they own 68 per cent of all the cattle. The hundreds of thousands of owners who own less than 50 head make it very difficult to rapidly improve the cattle industry. Those owners do not depend on cattle for a living. Cattle are only secondary income. Most of them have a job in town.
and their cattle do not get too much attention. These owners do not support the cattle associations. They do not improve their herds. In fact, they are inclined to mongrelize them.

The second largest problem of the U.S. cattle industry has been too much fat. Grain was cheap for 30 years. Refrigeration was not the best and fat was a good insulator and also good wrapping paper. Older cattle feeders remember how much fatter they used to make their cattle. Younger feeders are told by the packers to keep them for another two weeks so the dressing per cent will improve.

Our current USDA grades make it difficult to produce USDA Choice carcasses without getting the cattle too fat. Currently, the industry is in the midst of a grade change which will reduce the fat content. The hearings are complete and the USDA will make the decision soon and sometime in late 1982 new grade standards will go into effect.

The third weakness in the industry is a common goal of producing beef efficiently. Originally the Spaniards brought the longhorn cattle to the United States. The British breeds followed and gradually the cattle herds were changed to the British breeds. The next era was the stock show era when all the attention was to
make the cattle look pretty. The breeders should have been developing breeding and feeding efficiencies in their cattle. When economics first started to pinch in 1967, the crossbreeding craze started. Most ranchers started crossbreeding without a plan and without realizing how quickly they could lose the good traits their cattle herds had developed.

Today the only game in town is to produce beef of uniform weight and grade which will fit in the boxes. The feeding efficiency must be increased to be competitive with poultry and pork. The ranch efficiency of 70 per cent calf crops cannot exist for many more years. It must be boosted to 95 per cent calf crops. These are tremendous challenges to our cattle producing ranchers. Economics is forcing them to either become good ranchers and survive or to slowly liquidate the cattle herd.

In summation, I have told you about the economics of the protein food industry in the United States and also some of the problems the cattle industry faces. These are major problems that will require several years to change very much. World economic problems caused by the high energy costs are slow to correct. The United States appears to be at about the bottom of a very severe
recession. Most economists believe 1982 will show slight improvement by year end. Good economic conditions cannot return to the U.S. before the late 80's. Until better economic conditions develop it will be very difficult to raise the price of cattle very much.

Therefore, my best judgment is that the 80's will be a long, slow decade for the cattle industry. However, U.S. cattlemen realize their problems and they intend to develop new beef products—something between sirloin steak and hamburger. They also are going to develop superior cattle on their ranches and retain ownership through the feedlot so that profits can be maximized. The leaders of the U.S. cattle industry are more dedicated to preserving the cattle industry than I have ever seen them. They will survive and slowly they will pull the small, inefficient producer up with them.

The 1990's are several years in the future. When that decade arrives, world food supplies will be much more in balance. Cattle will be needed to convert a million acres of grass land into high protein beef. Cattle will again come into a prominent place in United States' agriculture.

Thank you for inviting me to Calgary. I have enjoyed being with you, my Canadian cattlemen friends.

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It is indeed a pleasure to be in Billings, Montana, and have the opportunity to speak to a very progressive group of cattle producers. If the cattle industry again returns to profitability, it will be because ranchers like you are determined to make it better.

I have been in the cattle business for over 50 years. Most of my experience has been in the feedlots. However, I have always had some ranch interests. We currently own two ranches near Greeley, Colorado, which we operate as steer ranches. We stock them each fall with Montana calves. In the 1950's I was half owner of the Seventy One Ranch at Martinsdale, Montana, so I am familiar with many of your problems.

Cattle producers must be optimists, hard workers, and have faith in their basic industry. Obviously, you all fit in that category because you are here to buy bulls or females to improve your herd. You all hope the industry will improve and your ranch will again start to make a profit.

I am really here tonight to talk about the future of the beef business. However, in order to analyze the confusion and bad economic times of the past eight years, we must review a little history.

As the west was settled, the Spaniards brought in the first cattle. These longhorn cattle gradually moved north and west. The next step was to bring in the basic British breeds--Hereford, Angus, and Shorthorn.
Gradually herds were built that were excellent cattle. They had been
selected by the owner to fit his particular ranch. These were superior
cattle at that point in time. The next step was to refine the breeds.

The industry spent many years trying to make their cattle pretty
and stylish. Dwarfism showed up in all breeds and performance went
down. The best most concentrated blood lines of the industry had to be
eliminated because of dwarfism. These bulls and females were shipped to
the southeast to cross on the small mixed breed cattle known as yellow
hammers. The results were dramatic. The high quality bulls immediately
produced Okie cattle. These Okie cattle were the start of the great
cross breeding era we are still involved in.

I well remember a former President of the American National Cattle-
men's Association who was a Hereford breeder. He visited our feedlot
and saw two pens of the early day Okie cattle. I have never taken such
a tongue lashing in my life. I was a disgrace to the industry for
buying mixed breed cattle. That was about 35 years ago. Times and
knowledge have changed.

Charolais were the first new breed introduced. Huey Long, a former
Governor of Louisiana, smuggled Charolais cattle from Mexico into the
Louisiana back country. After a few years of increase, these cattle
started the cross breeding era in the west.

You are all familiar with the great number of new breeds which have
been imported. Ranchers originally looked at crossbreeding as a panacea.
It was a quick way to improve the herd and increase income. Most ranch-
ers have tried several breeds in their crossing programs. Few of them
have realized how quickly they can mongrelize their cowherd.
Finally the beef industry is just now waking up to the fact that the only product they produce is beef. They are also beginning to realize that poultry and pork are tough competitors.

Do you realize that 25 years ago broiler chicken sold for 60% to 80% of the price of beef? Today broiler chicken sells for about 29% the price of beef. These people have only one goal. That is to continually improve their broiler chickens both in efficiency and in the way the products are merchandized to the public. Pork has also made dramatic improvements in their products and merchandising.

Today the beef industry is being forced into rapid change whether they like it or not. Consumers are telling the beef industry that they want leaner beef. Choice and Good grade steer beef are only $2.00 apart. Heifer beef is only $2.00 below steer beef. The larger beef packers do not stamp cattle with the Good grade. These packers all put them in a house brand box and actually get close to choice price, sometimes a premium.

These facts plainly say beef is beef. Steer or heifer, choice or good, beef must compete with broilers and pork chops. It is this competition that brings beef back to reality. At the moment, we are enjoying better cattle markets and there is optimism. As these higher prices reach the retail counter, the consumer will substitute more pork and poultry.

I have been emphasizing pork and poultry because part of their success is their ability to cut and package their products into retail cuts at the slaughter plant. These packaged cuts are put into cardboard boxes and delivered to the super markets. Any clerk can unpack the box
and place the products in the refrigerated cases. The stores don't need a high salaried butcher. They can buy the particular items that sell best in their store. They don't have to buy cuts or pieces that don't move in their neighborhood.

A few years ago beef was the number one product in the supermarket. The most feet of counter space in the best location in the store was allotted to beef. The store spent more money advertising beef than any other product. This is no longer true, partly because of consumers' desires and partly because store operators can make more money on other food products that have become much easier to handle.

My assignment was "What Size Critter Fits The Box?" The first and most important point to be understood is that if the critter doesn't fit the box there will be severe discounts. I would call your attention to the discounts applied to Yield Grade 4 cattle--$.10 to $.20 per hundred weight. There is no market for these undesirable animals except at ruinous prices. In another five years I believe you will see the same severe discounts on any animals that won't fit the box.

Please let me drive that point home. The present policy of Iowa Beef Packers, Excel Beef Packers, Land of Lakes Beef Packers, and Monfort of Colorado is to purchase cattle from feedlots that are not too heavy or too fat. They will not purchase pens of cattle of that kind. When pens of cattle are slaughtered, any carcass weighing less than 550# or more than 800# plus all carcasses that are yield grade 4 or 5 are sold for any price they can get. They cannot and will not put those carcasses in their boxes with their name on the box. They feel that in
time because of smaller families that the 800# upper limit will likely be reduced to 750#.

I know that many ranchers feel they must have heavy weaner calves or they cannot stay in business. What I am suggesting is the fact that the only market in the future is the box. Therefore, ranch cattle breeding decisions must fit the market.

Feed and interest are major factors in the cost of beef production. Cattle must mature early at reasonable weights. Crossbreeding with large feedlot gains are a necessity, but the breed selections must be carefully planned so that each rancher can best manage his feed resources.

It is not likely that today's smaller families will increase. I recently saw an article that showed 60% of the households in the City of Denver contain two or less people. These facts prove that large cuts of beef cannot be merchandised. The good restaurants have discovered that customers no longer want very large servings. These new generations are interested in health and activities. They live in cities. They use computers. They do not need to eat as much meat as former generations.

Beef has a good future if progressive producers will accept the simple fact that beef must be standardized in a box so that it can be competitive with other food products. The beef in the box must be tender, tasty, juicy, and not too fat. That is the only game in town. Beef producers will play that game or go out of business.
I am pleased to attend the National Livestock Grading and Marketing Association Annual Conference. I know that you had an interesting day yesterday touring various areas and I am sure you will find the conference worthwhile.

My assigned subject is the Beef Cattle Industry--Past, Present, and Future. It is easy to review the past; not too difficult to discuss the present; the future is the cloudy part of the triangle. I realize that within this group you are all professionals. Most of you are involved in livestock work in your various states where conditions or problems may be different than the total cattle industry that I will talk about. You will have to take my thoughts and temper them with your own local-state situations.

The beef cattle industry came of age with the drought and the depression days of the 30's. The drought forced cattle into the feedlots and also to slaughter. The cheap grain that was produced in the depression years made it very economical to feed livestock and so cattle feeding started to grow. I was involved in it as a young man associated with my father who had spent his lifetime in the business, so the things I am telling you are from personal experience, not something I have learned from reading a book.

A depression lowers the value of everything until finally the nation starts from a new set of values. For example, we sold fat cattle for $4.50
cwt in 1932. The uptrend started in the late thirties and continued at an accelerated pace because of World War II which made additional production of beef very necessary for the defense effort.

Cattle had been fed in the midwest for 50 years prior to 1930. However, they had not been fed with any plan or knowledge of nutrition. They were used to consume the excess corn raised in the belt. Occasionally when the season produced soft corn, lots of yearling cattle were fed. When there was a good corn year, producers were more inclined to use the good corn for their hog feeding operations. In other words, cattle feeding was the balance for the production of corn.

At that point in time, the only market for corn raised in the midwest was a small amount for industrial use—starch, Kellogs Corn Flakes, and products of that kind. Prohibition was just ending. The distillery business was not using large quantities of grain such as they do at the present time and there was no export business. Corn farmers basically were forced to feed livestock, hogs, and cattle in order to market their corn.

A few of us saw the opportunity to feed cattle on a year round basis here in the west. Modern cattle feeding as we know it today was pioneered here in Northern Colorado. We fed cattle where the climate was excellent; we were near the supply of feeder cattle; and we fed on a year round basis instead of seasonally. And, we were able to reduce the cost of producing these cattle compared to the Corn Belt. This is why cattle feeding gradually started moving westward.
World War II implemented this transitional phase by developing the semi-trailer truck. This new innovation allowed the truck to back up to the gate of the ranch or the feedlot and move the cattle to their destination. Always before the animals had to be driven to the railroad station, loaded in rail cars, and shipped to terminal markets. With the advent of the semi-trailer truck, the whole livestock industry started to change.

Many people do not realize that this new truck development started the demise of the central market system and the trend to direct marketing. The growth of the large cattle slaughter plants to Kansas and Texas was the next stage. The trucks also made it possible to produce beef cattle in all the southeastern states. Again, the trucks moved the feeder and stocker calves to the north and west. The southeastern states contributed the great expansion in the cattle industry.

From the 1930's through the middle of the 1970's, the cattle industry moved forward. A phenomenon occurred; cattle numbers continually grew and prices continually went up. The cattle industry was the star of agriculture. The income from cattle produced more revenue than all of the other major crops combined. Those were the good old days—that was the past.

For this purpose, let us use the present as a time period starting in 1974 when the OPEC nations boycotted oil shipments. The energy crisis which developed forced oil from $5.00 a barrel to $40.00 a barrel. That phenomena changed the whole world in every way. Not only the cattle industry, but every other business in the world was affected and is still affected by that one event.
The great shock of the oil price readjustment, the rapid inflation caused by the oil embargo, plus poor crops increased the world demand for grain. At the same time cattle reached peak numbers of approximately 130 million head. Literally since that time, the industry has been reducing the cattle herds because of the unprofitability of the cattle industry. The liquidation was very rapid for a year or two and then it was about balanced with a year or two of slight ups, then downs. Cattle inventories have been reduced about 10% and they are still liquidating. Cow slaughter is approximately 10% more for the first six months of this year than it was last year. The reason for liquidation is pure economics. There are other things that you can do with land and money that are more profitable than owning cattle.

This so-called present time has been a very bad period of years for the cattle industry. There have been artificial ups and downs two or three different times caused by different unforeseeable events. For example, one was the grain embargo against Russia when they marched into Afghanistan. The Carter grain embargo probably did more to throw the cattle industry out of time than any other single thing. The cattle futures market forecasted much higher prices than were actually obtained. So, a false forecast of values gave some temporary hope. Today the reverse is true and the futures prices are drastically discounted for the months ahead.

There is a misconception of what cattle futures markets forecast. Future markets do not pretend to say what cattle will be worth months ahead of time. All they indicate is that the public is willing to buy and sell contracts on that price basis. Futures markets may or may not have any
relationship to the cash market when the contract time arrives. There is no dependable economic relationship between cattle futures and cash cattle.

To sum up the present, I would like to speak to the immediate present. We have enjoyed an excellent cattle market so far in 1982. What was a disaster in December 1981 soon started into a much better market in 1982 and it constantly improved until late May. Wholesale dressed beef reached $118.00 per cwt, the highest price ever recorded. Retail prices have been and still remain at fundamentally the highest price that beef has ever sold. Bear in mind that the United States is in a recession. Times are not so good, but beef is selling well in relationship to other meats and all meat protein is selling at a price higher than last year because the supply is reduced. We are actually consuming 50 to 75 million pounds less of red and white meat each week than we did a year ago. With the reduced supply, we are able to hold higher prices which is very necessary if production is to continue.

The calamity that I can report to you is the fact that the new NCA Beef Grading Proposal made in April 1981 is still in limbo and apparently is not going to get any action for several more weeks, maybe there will be no action at all.

Had USDA taken the National Cattlemen's proposal and made it into a grading change, we would have permanently solved most of the cattle industry's problem. For the past two months, the industry has been selling cattle on basically the new grade standards. I know the grades have not been changed, but the demand for ungraded beef has grown to the point that
the packers do not really care whether the cattle grade choice or no-rolls. Because cattle have been very current, there has not been any yield grade 4's to hurt the market. The hotel and restaurant trade that raised so much fuss about the grading regulations have not been short of beef. Because of cattle genetics, there is always plenty of high quality beef. True, there is no surplus of choice 4's that can be bought cheaply so that beef breakers can make a bundle of money.

The grading objections of the processors and restaurants is purely one of selfishness. They want a large supply of over fat cattle that they can buy at cheap prices, fabricate them into pieces, and make a profit at the expense of the cattle industry. It is foolish for the industry to produce a product that is undesirable and then be discounted for it.

The cattle industry is more current today than it has ever been. Beef is moving into consumption at the highest price ever known and at about as high a premium above pork and poultry as it has ever sold. So the proof of the grading change is very apparent.

Unfortunately, the proposal got tied up in politics and has dragged on for over a year. USDA has tried to have too much public input into a subject that they have no knowledge of. Now the Department does not know how to handle the final decision. I am afraid that this lack of decision will plague the cattle industry for years to come.

Now to the future. That is more important than the past. I will restate that the future is cloudy.
Fed cattle slaughter in April and May was lower than the previous year. This was caused because of the unsatisfactory markets for fed cattle last November and December which reduced placements on feed and consequently reduced supply in April and May. As the fat cattle markets improved in January, February, and March, increased numbers of cattle were placed on feed. Those increased placements are starting to come to market. July and August will be the peak supplies of fed cattle.

This is reflected in the market today. Beef has dropped to about $110.00 or $8.00 per cwt dressed from the peak in late May. With the supply of cattle in the feedlots, it is very likely that the market will slowly decline this summer.

The nation is experiencing a very excellent season as far as moisture is concerned. Grass is good everywhere and undoubtedly there will be a large supply of cattle this fall that can go to slaughter as grass fat beef. That will be one option. The other option would be to place these cattle in the feedlots. It will merely be a price relationship of how to get the most dollars. Whether cattle will be worth more as feeders or grass fat cattle only time will tell. If they should go as grass fat cattle, then that supply will be on top of a large fed supply. This would temporarily increase the supply of beef and cause lower markets during the fall months and then better markets in 1983. Which of the two scenarios will occur this fall is the question.

The poultry industry has stopped increasing. They are maintaining their production at last year's levels. The pork industry has reduced their
production somewhere between 10% to 15%. Actually, there will be a pig crop report issued this afternoon that will pinpoint it a little more positively. Both the stabilization of poultry numbers and the decrease in hog numbers have been caused by unsatisfactory profit levels.

It is estimated that the 1982 average per capita consumption will be about 77 pounds of beef. Poultry for the first time will take second place and we will consume nearly 62 pounds per person of poultry. Pork consumption will be reduced to approximately 57 pounds, making a total consumption of red and white meat of about 196 pounds. These consumption figures are retail weights. This is about 6 pounds less than consumed in 1981. I have stated before and I will restate again that before this decade is over that poultry will take beef's place as the number one meat. Beef will be second and pork third. The 196 pound total will not vary all that much. Our per capita consumption has been in this area for many years. The fact that poultry is the most efficient and cheapest meat protein is the basic fact that will make this happen. It is only a question of how quickly it occurs.

With reduced supplies of pork and no increase in poultry and with lighter weights on the cattle that are being slaughtered, the industry can probably get through the fall period when meat supplies are always at a peak without too much problem. The most worrisome fact is that October futures prices on live cattle are approximately $10.00 cwt below today's prices. If the futures market is right, then the cattle industry will face some very serious problems this fall. Liquidation will be accelerated and cattle slaughter could be heavier during the last quarter of the year.
Cattle feeders have made some money the past two months and this has put some renewed enthusiasm into the cattle industry. These profits were made because feeder cattle were purchased at fairly low prices. The feeders were purchased at a level which did not produce a profit for the man who raised the feeder animals. If fat cattle values continue to decline, then feeder cattle will be forced to decline also, and if cattle producers cannot produce cattle at those prices, then continued liquidation will occur. In my judgment that is what will be happening for another two or three years. The only real option the cattle industry has is to reduce numbers and poundage of beef until a rate of consumption is determined that will allow the industry to operate at a profitable basis for all segments.

In 1973 we had roughly 130 million cattle. Today we have somewhere in the neighborhood of 115 million. Very likely the population will have to recede to about 100 million. This means that many cattle operations in many states will be removed. Economics will make the decisions. Land must be used for its most productive purpose.
George Spencer picked me up at the Marina Inn, South Sioux City, Nebraska at 8:15 A.M. He was driving a pick-up truck, which is his transportation to the IBP plant. It was a six or seven mile drive to Dakota City, Nebraska, which is where the plant is located. A nice clear morning, they have had a mild winter. There are some piles of snow in the parking lot, but that is the only evidence of winter.

Please bear in mind that I enjoyed a very unusual day with the management of Iowa Beef Packers largely because of my long-time close friendship with George Spencer, but also with the men who originally started Iowa Beef and for whom I did some favors years ago. Therefore, they were very frank with me in their discussions. The material that I will relate in this report should be kept confidential within our own organization. It is not for public consumption.

The plant is a huge one-story plant. We did not go into the plant. I had been in it before. In front of the plant is their new four-story office building where I spent the day.

After visiting with many people in their offices during the day and taking a tour of all of the departments within the office building with George Spencer, I am convinced that this is the most efficient office building I have ever seen. I would also comment that IBP is probably the most efficiently operated business in this country. It is a no-frills business. The office building, while being only three or four years old, is very plain while still being attractive and pleasant. Each floor is basically one big room. Windows are on three sides. On the three outside walls there are small offices for the various management people. For example, George Spencer has one of these offices which is about 2/3 of the size of my present office. It is partially glassed in for privacy and noise. He has a desk and two chairs for conferences. Next to him is Perry Haines, the vice president in charge of operations -- one of the top four jobs in the company. His office is the same size as George's except there is a little wing on it containing a small table and four chairs.

Years ago (I have forgotten how long, but I would guess at least 10-12) three men came to our office and spent all day with me. They were a consulting group from the First Boston Company. They had been commissioned to study the future of the cattle feeding industry. At the time they were not at liberty to divulge who they were working for. They were highly intelligent young men. They spent several months developing their report. Yesterday I found that these three men all went to work for IBP because of the outstanding quality and depth of that report. Through the years two of them have dropped by the wayside, but the one man, Perry Haines is a very brilliant person. He is in charge of production -- the genius who developed the computer system which I just explained. He took a relatively low salary and stock options and has done tremendously well. He is one of the four men who manage IBP.

In the main office area, which can be viewed from George's office and by the people on the opposite side of the building, are dozens and dozens of employees in small work stations using movable partitions of
different colors — blue, green, orange, very similar to the ones we use. These are only about four feet high — perhaps 54 inches. When people are sitting down at these work stations and you look across, you do not see any heads. However, as you walk in the aisles between, you look across and everyone is visible at their work stations. They are small work areas containing a desk, telephone, calculator, a CRT, and perhaps a printer. Most of them have either an L-shaped desk arrangement or a desk on either side with a chair in the middle. Hanging on the wall of their cubicle is their coat and hat. These cubicles are bunched together in units of four to twenty. That group of workers are responsible for a specific part of the operation. Their supervisor is one of the people in offices along the outside walls who is responsible for the various activities.

IBP currently slaughters approximately 150,000 fed cattle each week. In addition to this, they purchase 10,000-25,000 no roll carcasses from other beef slaughterers. These carcasses go through their boxing operation. The amazing thing is that here is literally 1/4 of the beef business of the United States operated by a handful of people with extreme accuracy.

The main frame computers are in this office. Every satellite plant in the U.S. is connected to the headquarters. To illustrate the control they have: As an animal is slaughtered and comes to the hot scale in two separate halves, the scale weighs the animal and identifies the carcass with a number. If there is any defect on the carcass, it is recorded as the animal crosses the hot scale. This complete record is made at the instant it crosses the hot scale and transferred to Dakota City. The other half of the carcass may weigh a pound or two different. This is recorded and identified so that the two halves make a complete carcass. A few hours later when that carcass goes from the cooler and is yield graded, the computer adds the yield and quality grade to the record of that particular carcass.

This information is constantly assembled and studied by a group of workers. They know every hour how many Choice twos, Choice threes, or yield grade 4 and 5 cattle they have at each plant. This information gives them the yield grades plus the weight of each carcass. With this information they can plan their boxing instructions and later their shipping instructions. For example, they prepare ribs in many different ways — some with rib in, some with rib out, some cut in small two-rib cuts, others in large twelve-rib cuts. Depending on the orders they have for product and the weight of the carcass, these carcasses are put together and the plans are made how to get the absolute most out of every beef carcass they have to work with everywhere in the United States every hour.

The man in charge explained that not long ago they made a large sale of large beef ribs in South Carolina. It was a very particular order. In order to furnish the large number of the right size and trim of that product, some of it had to be furnished from Pasco, Washington, which meant extra freight, but that was where the supply was and that is why they have the reputation of being able to offer large quantities of any product at any time under any conditions.
Any beef carcass weighing less than 550 pounds or over 900 pounds, or any beef carcass grading yield grade 4 or 5 are sold to outside buyers. Here again, they state that they are not good merchandisers; they get rid of them every day. They wish they never had them in their packing plant, but of course they do. So they sell them at the lower end of the market, cleaning them up daily. The computer program shows where they are. They know what they have, what the weights are and what the quality is. They don't wait to accumulate these, but they move them constantly.

Many points are only slaughter plants. Where they both slaughter and box, they call them beef complexes. They move the beef carcasses from a slaughter plant to a beef complex with very unique, efficient, low-slung trailer trucks. These trailers are high enough to accommodate full beef halves on a rail system exactly like the plant.

The beef halves are transferred directly from the plant rail onto the truck rail, transported, and unloaded on to the rail into the complex. In other words, the carcasses arriving at the beef complexes are handled exactly in the same manner as if they had been slaughtered in that plant.

The government grades all cattle in all their plants. They grade the yield grade fours and fives. This way there is never any question about those carcasses moving to the boxing complex. They have a man who was trained in the meats department at the University of Wisconsin who is responsible for all grading. He has trained the plant personnel at all of their plants so they have more of the skills than the government graders. They know beef from A-Z. They know exactly how it should be graded. Consequently, they get their cattle graded to good advantage because the IBP man who stands beside the government grader knows as much or more about grading than he knows. These company men yield grade their no-rolls with their own marking system so that they know whether they are yield grade 1, 2, 3, 4, 5. They have a very large no-roll business. Certain stores like these no roll carcasses tremendously because of the high percent of Number 2 carcasses. The no roll carcasses which yield grade 4 and 5 are sold to other buyers.

Mr. Mostek is their man in charge of grading. Grading, of course, is the price-fixing point for a producer who has sold on a beef basis. It is also price fixing for IBP because the grade establishes the sale price. He is responsible to see that the grading in all plants and under all conditions is as accurate as it can be. One of the arguments against government grading has been that it is "softer" in some places than in others. This man's job is to see that grading is alike in all of their plants and that the cattle bought are properly graded because their reputation is at stake with every box they produce. In addition to their own expert graders, they have another group of people who wear orange hardhats. This is the quality control group. They are like auditors, having tremendous authority and access to the breaking plants. They continually take boxes off the line, weigh and examine them before the boxes are sealed. If the cuts are not trimmed satisfactorily, they trim them to meet IBP's specifications and show the supervisor of that department the way it should be done to meet specifications. I attribute a great deal of their success to this absolute quality control.
They have a little more breaking capacity than they have slaughter capacity. Frequently, they can buy beef carcasses cheaper than they can produce them. There are other weeks when they can buy beef carcasses cheaper than working overtime. They need and want the volume, so they are large purchasers of beef carcasses. I had been under the impression that many times when we read the wire that there is packer support and packers are buying lots of beef, I have thought that this was because they were trying to hold the market. That is not necessarily true with IBP. They are playing every end that they possibly can to hold expense to a minimum and to get the most total pounds of beef through every plant every single week. The majority of the beef carcasses they buy from other slaughterers are no-roll 1, 2, or 3. They will not buy 4 and 5. Occasionally they buy Choice 3 or better, particularly if they are cheaper than they can produce them.

George Spencer told me that they run a very clean and lean company. They are not extravagant in any way. Neither are they stingy. Money is made in their plants. Their philosophy is that the best, the latest, the most efficient piece of machinery well maintained is the cheapest investment they can have. The walls of the building may not look too good or the roof may not be the best (of course, it is water-tight), but there is no better machinery and no more efficient lay-out available, or they would have it. They constantly study how to make one less cut or make it quicker or easier. They will change the configuration of any equipment in order to increase volume.

Bob Peterson the President told me that, in their opinion, nobody can kill, cut and trim cattle or hogs as efficiently as Iowa Beef Packers. In some other areas they believe they do as good or better a job, but in those three areas they believe they have no peer, and they intend to keep it that way.

All their people work hard. Some of the second-level managers work twelve to fourteen hours each day — longer if necessary. They work six days a week. Their ideal operation is to work the slaughter facilities five days a week and purchase enough outside slaughter to operate the breaking plants six days a week. This gives them the greatest volume — the greatest number of pounds of the product to get a return on. Since cattle numbers have declined and competition has increased, it is getting more difficult to make a profit in the slaughtering operation. They operate their business with two profit centers: 1. The Slaughter Operation 2. The Boxing Operation.

The slaughter operation buys the cattle, slaughters the cattle, and sells the carcasses that meet their specifications to the boxing operation. These animals are charged to the boxing operations one at a time. Any slaughtered animal not meeting grade or weight specifications is sold by the slaughter division.

The boxing operation receives the carcasses at the billed charge and adds their labor and receives plant overhead expense which makes them a profit center. The cattle bought on the outside are charged directly to the box operation. They believe the money to be made in the future will be made in the boxing operation.
IBP has boxing operations at all of their large plants. When they have both operations they call it a complex. In other areas such as West Point, Nebraska, they only have slaughter. That is termed a plant. They closed the Ft. Dodge plant about a month ago. They are not sure if and when they will reopen it. They realize that the cattle numbers are being reduced. Who is going to feed cattle in the future and where they will be fed is a big question. If they cannot get the volume, they will close any plant they have. They know that there is no future for a plant without supply.

Further illustrating the efficiencies of this operation -- when it came time for lunch, we went to the basement cafeteria where all the employees go. They have a very simple cafeteria operation where employees go through the line and make their food selections. It is charged to their account number and deducted from their paychecks. No money changes hands. It is marvelously clean. The food is excellent and operated on a breakeven basis. We went through the same line as everyone else. Instead of sitting in the large lunchroom, we went to a small side room so that we could have a discussion during lunch. Even that room had four tables arranged in the four corners where four different officers could hold lunch meetings. George and I were joined by Bob Peterson the president, Mr. Michael, Perry Haines, and Russ Walker, the cattle buyer. Those are the four top men of IBP. We had a very in depth discussion for an hour and a half. All four of those men are most impressive, particularly Bob Peterson.

Since all of their beef sales are considered as one throughout the U.S., all of their costs are based on day-to-day procurement and day-to-day sales. They do all record keeping on a day-to-day basis, then accumulate for a week. Actually management operates on weekly figures. But they know within reason how much profit or loss they are making each day. The fact that they may make a few good sales in one part of the country and have bad results somewhere else is of no interest to them. They are interested only in the total sales made daily. Because of this they are very conscious of their daily dressed beef cost. All of the orders placed by Russ Walker are placed on a beef basis. When he gives them a beef price, that is what the buyers must try to comply with. They have a daily drop credit given to them from the computer. The buyers know that. The beef price is based on a dressing percentage which the buyer must estimate -- based on 70% Choice. The buyer takes into consideration the number of light weight or heavy weight carcasses plus the possibility of Number 4 or 5 yield grade. They want the best cattle because they have the reputation of selling the best beef. If the buyers can acquire a product below Russ Walker's price, that is great. If they have to go over the price, that is forced by competition in order to get the numbers and keep the production, then that is acceptable. They must have the numbers because operating at part speed is more expensive than having extra cost in the beef.

The industry is very very competitive at the moment. Bob Peterson stated that last week was the worst single loss week in modern IBP history. They lost money both at the slaughter profit center and the boxing profit center. This seldom occurs.
There was an interesting coincidence that occurred during the day. Dr. Robert deBaca and Mr. Thomas A. Hertz plus another man were visiting IBP for somewhat the same reasons I was. Bob deBaca formerly was on the faculty of Iowa State University. He has been a great leader in Iowa cattle production. Mr. Hertz heads a company known as Hertz Associates Management and Investment Services. They operate six hundred farms in Iowa and Minnesota. Bob deBaca operates and is responsible for Hertz-deBaca Cattle Management Company. Their mission was to work out some type of marketing arrangement with IBP where the cattle could be forward priced. They would pick farms with excellent feeding facilities and reasonable priced feed supplies to produce the kind of beef that IBP wanted. IBP was obviously interested because they are worrying about supplies for their various plants in that part of the country. Maybe they could generate a few thousand cattle on feed. The Hertz-deBaca people are responsible for the farm management and a market for the production. If they have a dependable market, then deBaca will see that the right kind of cattle are bought and fed to the proper weights instead of leaving it to the farmer-feeder. I would assume that these people will get together to make some kind of deal.

IBP is worried about the fact that there is 1,800,000 less feeder cattle outside of feedlots on January 1, 1985, than there was one year ago. They realize that during the second half of this year and all of 1986 there will be much shorter supplies of fed cattle available. They do not know where they will be located. They do not have the real positive feel for the supply situation in the next few years. The reason that it is uncertain is because of deals like Hertz-deBaca. If there are enough people like that, then perhaps cattle will be fed in the corn belt and those midwestern plants can stay open. IBP has not fed cattle anywhere in the midwest, nor do they want to. In the long run they may be forced to feed cattle to supply a plant. The only place they have ever fed is in the northwest. They never intend to feed cattle unless they are forced to.

Speaking of the Northwest. They believe that it is a more or less closed area. They only have one competitor up there. The cattle feeding in Idaho, Washington, and Oregon is basically stable. It has moved from one area to another somewhat, but with their two plants in Boise and Pasco, they have a good stable supply which is guaranteed because of the potato-waste feeding. They expect the northwest area to remain status-quo. They see no growth nor any decline for many years.
IBP firmly believes that the reason the cattle prices in Texas and Kansas are higher than anywhere else in the nation is because the largest, most efficient plants are in those areas. They are complex plants where they operate on a double shift, where they box beef at the plant rather than having to transport it, the product can easily be distributed in all directions. They see this fact continuing in that price-setting area. The main reason they can pay more is because their costs are less due to the tremendous efficiency, good labor, and normally good weather.

They see our Colorado area as a valuable adjunct to the Texas-Kansas center. They realize our problem with the loss of Sterling Beef Company. They believe that it is only a matter of a relatively short time before the Sterling plant will close. It is not an efficient slaughter plant by today's standards. The fact that carcasses have to be hauled to Ft. Morgan for breaking makes it even more inefficient. They stated that had they bought Sterling, their plan was that they would have to spend more than twice as much to modernize the plant as the plant would have cost them in the first place. Under today's conditions they doubt if Sterling is saleable.

IBP is not interested in buying or building new beef plants at the present time. They want to see what happens with the reduced number of feeder cattle available. Eventually, they might consider a plant in eastern Colorado or western Nebraska. At the present time their capital expansion is going entirely into the pork industry. Temporarily they are not trying to expand the beef portion of the business.

They have two reasons for going into the pork slaughtering business. They have purchased two plants. They have improved them tremendously. The pork operations are very profitable. The pork industry as a whole is like the beef industry was when IBP entered the business. It is out of date. Their equipment, machinery, cutting, curing, etc. is not up to the computer age. Again, they say they know more about killing, cutting and trimming than anyone else in America. As they put that expertise into the hog industry, they get a much higher return on the dollar invested than they do with beef.

The second reason is that as they see the future, both beef and pork will all be boxed. They will be able to send mixed loads of product to many customers and have an advantage. The ordinary beef packer will only have beef, and perhaps the customer does not need a full truckload of beef. They intend to buy some more pork plants. They tried to buy Wilson Co. and failed. Eventually, they will buy an established company like Wilson with a brand and advertising reputation. Marketing retail products is new to IBP. They could develop it, but they feel that they can buy it cheaper. Sometime in the next year or two, you will see them acquiring a reputation pork packer.

With this information of what their plans are, it is obvious that we won't get much help from them buying Sterling or building other plants close to us for probably 5 years -- maybe as much as 10 -- depending on what happens to the cattle supply.
Bob Peterson is very pessimistic about the outlook for the midwest farmer. These farmers have had a good thing going for about one hundred years. The cornbelt has small towns with small banks usually owned by a person within the town and operated as a private institution under a state bank charter. As the value of the Iowa farm land is written down, then the larger and more aggressive farmers will buy up the land and consolidate it into much larger more efficient units. A bigger operator must bank in a regional town because that regional bank will have some tie-in with a large city bank or perhaps be a branch of a city bank. Not only is farming going to radically change, but the hundreds of small towns are going to rapidly deteriorate. There will be no reason for their existence as fewer and fewer people operate farms and fewer and fewer services are needed in the small towns. This is one of the gnawing factors as to the future of pork and beef in those states. They feel that pork productions will be one of the things definitely remaining, so that is another reason they are getting into the pork business.

They told me that more than 80% of the beef is now being boxed. There are still a few customers like Winn-Dixie, King Soopers, etc. who have their own boxing plants. Those companies are still buying carcass beef and boxing it. When we speak of more than 80%, that is included in the total. However, all of these companies are taking a very hard look at these operations. Ken Knutson, whom I have known for many years works with these companies. He is constantly proving to them that they can buy IBP boxed beef cheaper and have more consistent quality than they can produce themselves. IBP has more different cuts available. The weight of the cuts needed in certain stores can be controlled. It is almost impossible for chains to buy carcass beef and get the uniformity that IBP can furnish. Gradually they are shifting over. Part of the reason is the investment that these companies have in their own facilities. As they are depreciated down where the facilities don't owe them much, then they convert rather rapidly. Ken Knutson is of the opinion that the economics of the cattle industry will bring this about in the next five years where all beef moving into the trade will be in boxed form.

IBP sees no new faces coming into the beef business. They feel strongly that the Monfort-Excel lawsuit was a bad decision, and that it set the beef industry back. They are hopeful that the Court of Appeals will change that decision. They think Excel is a very strong competitor and will continue to be so. They are being very cautious at the moment because of the lawsuit. If they should win the lawsuit, they will be more aggressive. National is a good operator. Swift has become a very fine operation, which I did not realize.

To illustrate the statement about Monfort. Monort is very aggressive on the Sioux City market every day. They literally buy all of the choice cattle which come to the Sioux City market, hauling them to Grand Island. By the same token, Russ Walker hauls dozens of loads of cattle out of western Nebraska past the Monfort plant every day. Monfort buyers see these cattle and could be buying them for Grand Island cheaper than they can back-haul them from Sioux City. IBP has 11¢ freight from Sioux City to their plant. They have not been able to buy any cattle on the Sioux City market for many months. They see the same type of thing with sales. They use these illustrations to point out that Monfort is not as tight a ship as it could be.
They agree that the meat business is a mature business. They think that poultry will continue to make inroads on beef consumption. In their judgement there is no question but what the beef business is losing demand. They believe that the cattle industry should be promoting beef in a stronger way and that we have to answer the facts that are not true about beef, while admitting the facts that are true. They know that beef consumption is going to be down in 1986, but they believe that that is an advantage because it will help balance the demand.

I tried to get them to commit on where they thought prices might go when the supplies shorten. They would not positively commit themselves. They point to the fact that the consumer will switch to poultry and that pork is cheaper than beef. Because of economics, people will eat pork and they doubt if you can force beef prices much higher. They agreed that $1.00 per pound wholesale has been the price for the past three or four years. They believe perhaps it can be raised to $1.05 per pound as a hinge point, but they do not think it can go to $1.10 per pound and hold. It may go to $1.10 for a short period, but not for long. If they are right (and my own judgement is that they are), then the cattle industry will again be disappointed on price and that will force continued liquidation. We talked about the 110 million cattle population easily going to 100 million in the next two or three years before beef prices could be affected very much. If this occurs, then it focuses the problem of this whole discussion even more so.

Bob Peterson again pointed out that one of the reasons that beef has lost some demand is because of the anti-trust lawsuits filed first by California cattle producers, then a few years later by Iowa cattle feeders. These cases cost the food store companies millions of dollars of expense which was wasted money which had to be taken from profits. The chains feel that if they would try to help promote beef or push beef prices too much, that these kinds of people might be back in the courts again; so the stores do not have the enthusiasm for helping the industry that they once had.

Another very interesting phase of this problem is the fact that beef as it is now boxed is not going to change until the pork industry has caught up and is boxing their product as the beef industry is now doing. When that occurs and both beef and pork are boxed in volume, then the next move will be to portion packaging.

In order to be truly competitive, red meat must be portion packaged to effectively compete with poultry and fish in the retail market. When the single cut is wrapped and packaged at the boxing plant, delivered to the chain store, and the store transfers the package directly to the meat case, then beef and pork will be competitive. The chain's attitude is that there is no use pushing the beef industry to accomplish this until the pork industry is ready with packaged product because they would have to overhaul their meat counters two different times. Even if beef were packaged today, the retailer would be very slow to switch to the individual cuts.
Bob Peterson said that IBP always has a five and ten-year plan ahead of them. The ten-year plan had been to have beef in individual cut form in 1986 and 1987. But because of the explanation I have just given, it will not be until the 1990's. This is a new phase that I had never heard before, but because of my old contacts with the food marketing institute, I believe these assumptions to be correct. It is too bad for the beef industry because it will further decrease the consumption of beef at a period of time when we would like to see it stabilize.

IBP and particularly Perry Haines was highly interested in some of my thoughts about how Farr Farms should be trying to be a permanent cog in the wheel of beef production. In their production system they want nothing but the best possible cutout cattle available. They are interested in yield grade Number 2 cattle for which they will pay a premium. They do not have a current premium program on which they solicit business. If anyone like Farr Farms or the Hertz group were making individual arrangements with them, they will pay a premium. They pay $1.00 /cwt premium for all Choice 2's in the northwest.

They were very interested in a steady supply of high quality properly fed cattle with a dressing percentage of 63% on steers and 62½% on heifers hot weights with 70% Choice. Any no-roll carcasses close to grading would be held over for a second look. The supplier would get the advantage of the next day's grade. They would also pay a premium for no roll ones and twos. IBP would save buying expense. They would have fewer off carcasses to sell on the outside. They can afford to pay more; plus the premiums should absorb most of the freight to Holcomb, Kansas, or Amarillo.

We had considerable discussion regarding the futures markets. One of George Spencer's assignments has been to master the futures markets, to understand them completely, to have a staff with computers so that they can use futures in any way that is necessary. They think that Excel uses them more fully and better than any other packer. Excel's owner, Cargill, has been using futures for a long long time, and they know more about them than anyone else. Monfort is using them a great deal -- in IBP's opinion not to the best advantage. IBP never uses the futures unless they have to. They will forward contract on some type of arrangement like Monfort and Excel do. But they don't want to do that with everybody. They do it only by special arrangements.

IBP fundamentally does not like futures. They know that they are a necessity. They know that they are here to stay. But they firmly believe that futures have a basic levelling effect on the markets and put constant pressure on the market with factors that have no relationship to the industry. For example, they sight the Monfort deliveries this month and in December as affecting the market generally for a two or three week period.

George Spencer has studied all of the relationships month by month with every product and cut of beef that they produce. He has studied relationships with live futures, feeder futures and grain futures. They have traced for years the relationship, for example, of blood meal to the live cattle market. It has no relationship. The only thing they can find blood meal having any relationship to is soybean oil. There are some fairly consistent correlations
between beef ribs or top rounds with live cattle futures. They have a factor figure carried to four decimal points. Some restaurant buyers want to buy so many thousand prime ribs every month for six months to a year ahead. They have a fairly stable demand, they have a menu price and they want to fix the cost.

For example, IBP makes a two million dollar sale of prime ribs to be delivered on a set schedule for the next twelve months. IBP calculates the dollars per month of the sale that they will receive. They then calculate the value of a live cattle contract (40,000# x $65.00 = $26,000) They sell enough of the contracts to equal the dollar sale of beef that month.

They are working and have been working very hard at foreign exports. They are very much aware of the growing Japanese market. They sell variety meats all over the world. They have a group that works on that. They sincerely try to produce the finest product obtainable and sell it for the highest price possible day after day after day.

We have heard stories that IBP is not too cooperative in furnishing market news with beef prices. The reason for this is their philosophy and their approach to the business. All employees are trained and they understand that it is absolute company policy with everybody to not be depressed and not to think that markets are going down. Down markets cause losses. They firmly believe that markets always must go up. They understand, of course, that markets fluctuate, that there are down days and weeks, but they are taught to always be optimistic that the market will turn tomorrow. With this philosophy they refuse to ever report a down market. They will report steady and up markets, but as far as they are concerned, there is never a down market that they will admit. I mentioned previously that I had thought that sometimes they purchase cattle to support a market and keep it from going down. This is a half-truth. Primarily when markets are depressed and they can buy outside cattle cheaply, particularly if they can buy them and not kill on Saturday, then they save an over-time day and procure beef cheaper than they could produce it themselves. This has the double effect of reducing the slaughter supply, cleans the market and gets rid of the packers who are running scared, it gives them cheap merchandise for boxing and making a profit. Next week the market will go up. You must realize that every day they own 20-25% of the beef inventory of the United States. I believe they have the right philosophy -- it always must go up.

In the northwest where they have had the contracts with various feeders, they have found that it is impossible to guarantee so many cattle each week. It is not always possible to procure them. So they have to have general agreements that they will take their cattle as soon as they are ready. They plan their work about a month ahead of time. They want to have an idea to thoroughly plan their operations. Weight and grade is highly important to them. They like both steers and heifers. In the northwest they pay 1¢ per pound premium for Number 2 cattle. Those producers are paid an average price of the cost of beef produced each week by IBP. In other words across the nation if the average cost of their beef for all of the three or better Choice grade carcasses is 97¢, then that is what is allocated to Boise or Pasco - 97¢ plus
the $1.00 for 2's. The same thing applies to the average cost of their no-roll 3's or better. Whatever their average cost was, that is what they are credited with. In addition to this IBP gives them credit for the entire drop. The U.S.D.A. and CattleFax publish weekly information on drop credit, so those producers have those published figures to check against what IBP says is their drop credit. What this arrangement actually does for those people is to give them every single dollar that IBP receives at the slaughter level. The IBP profit is entirely what they can do with the carcass in the box. They give away all the rest of the profit in order to make the boxing profit. I have mentioned the two profit centers before. They break even on one and normally make a profit on the boxing part.

By and large, the northwest people are very satisfied with the program. They feel they are getting the entire strength of the market every week as their cattle are ready. They are in an isolated area, and as long as they get the average price of all of the plants across the nation, they feel they are getting full advantage of the beef price -- whatever that may be. Their problems are the occasional time when the government graders get tough on grading. If some IBP employee offends a grader, and the grader gets tough for a few days, it can affect any particular feedlot's slaughter for a week or two because the prices depend on the grading. In recent months, since fed cattle numbers have been shorter and the slaughter phase of the business has not been breaking even, there have been several weeks where they have received less from their cattle than they could had they sold them to a packer. Over several months or a year's time, they definitely get more. But occasionally they do get out of step.

As we look to the next two or three years of shorter and shorter fed cattle supplies and the fight between cattle slaughterers across the country of who is going to stay in business and who is going to be forced to close, we could see many many months, almost back to back, where the slaughterer is losing money. The slaughterers who have boxing where they can make a little profit can at least break even in total and hang on. The companies without boxing are going to be in trouble.

A man whose name I cannot recall, but who is the oldest of the managing four, made the comment that they felt that the only people who were really going to stay in business were those who have a complete plant -- one that takes every by-product and processes it on the spot. All of the blood meal, hides, the variety meats to be boxed and the sales organization to sell these products to the ultimate. They will go to any length in any plant in any process to improve the machinery to get the last penny out of any product. He believes that they have their company in just such a position, and they intend to stay that way to dominate both the beef and pork markets of the future.

Bob Peterson is very pessimistic about the future of agriculture for the next five years and the shake-ups that are ahead of us. However, he is very optimistic about the ten-year time frame. He believes: 1. That we will have a stronger, better agriculture 2. That agriculture will finally be specialized in all areas 3. That as a business agriculture will be a competitive business in everything, both in this country and on a world-wide basis.
To finalize, as IBP sees the picture, it is fundamentally the same as I see it. We believe that the industry has to move in some new directions in order to produce a better product and do it more efficiently. If we can attract the right kind of cattle, feed them to the proper weights and finish, and do it every day with no deviation, and merchandise these animals through some type of arrangement with their company, they are very willing to discuss a special working relationship that would give us an advantage over other feeders. They deplore the fact that the cattle industry is operated on averages and they agree that the only way that we can correct it is to have premium deals with premium producers. It is up to us to come up with a proposition.
MY PERSPECTIVE OF THE CATTLE INDUSTRY

April 3, 1985

WILLIAM R. PARR

IT IS AN HONOR FOR ME TO BE ASKED TO DISCUSS WITH YOU MY PERSPECTIVE OF THE BEEF CATTLE INDUSTRY, WHICH WAS THE SAME TOPIC THAT I HAD FIVE YEARS AGO WHEN I FIRST ATTENDED THE FIVE STATES FORAGE CONFERENCE. AT THAT TIME I DISCUSSED SOME OF THE DEVELOPMENTAL HISTORY OF CATTLE FEEDING AS WELL AS SOME OF THE FACTS AND FIGURES THAT WERE CURRENT. HOWEVER THE UNDERLYING THEME WAS THAT I WAS NOT OPTIMISTIC ABOUT THE IMMEDIATE FUTURE OF THE CATTLE INDUSTRY, AND THAT THERE WOULD BE RAPID CHANGE DURING THE 80'S.

HOWEVER THERE WAS NO WAY OF KNOWING THAT THE INDUSTRY WOULD FACE SUCH SUBSTANTIAL CHANGES IN SUCH A SHORT PERIOD OF TIME. THE VOLATILE SUPPLY, DEMAND, AND COST CHANGES DURING THE LAST DECADE HAS BROUGHT TO AN END THE DRAMATIC GROWTH AND DEVELOPMENT PERIOD OF THE CATTLE INDUSTRY. THESE CHANGES ALSO MARKED AN END TO THE TEN-YEAR CATTLE CYCLE WHICH HAD BEEN DEPENDABLE FOR OVER A CENTURY.

GROWING FINANCIAL PROBLEMS IN THE CATTLE INDUSTRY WERE LARGELY A RESULT OF SIGNIFICANT CHANGES IN THE NATIONAL AND WORLD ECONOMY; CHANGES IN BEEF SUPPLIES; AND INCREASING COSTS DURING THE LAST SEVERAL YEARS. WHILE THE SHORT-TERM FACTORS WILL CONTINUE TO CHANGE, THE LONGER TERM ENVIRONMENT WILL BE AFFECTED BY A MATURE MEAT INDUSTRY WHICH INDICATES CATTLE NUMBERS WILL CONTINUE TO DECLINE.

FROM THE EARLY 50'S TO THE MIDDLE 70'S THERE WAS AN IMPRESSIVE GROWTH PERIOD IN THE BEEF CATTLE INDUSTRY. CYCLICAL PEAKS OCCURRED IN CATTLE NUMBERS
AT REGULAR TEN YEAR INTERVALS, AND BEEF PRODUCTION AND CATTLE NUMBERS WERE BOTH UP. TOTAL CATTLE NUMBERS GREW 70% DURING THAT PERIOD. BEEF COW NUMBERS INCREASED 2½ TIMES, WHILE THE DAIRY COW HERD WAS CUT IN HALF. BOTH BEEF PRODUCTION AND PRODUCTIVITY INCREASED MATERIALLY. FED CATTLE SLAUGHTER INCREASED OVER 200% BECAUSE OF CATTLE ON FEED NUMBERS, WITH A RESULTING DROP IN VEAL SLAUGHTER. BEEF PRODUCTION PER COW INCREASED FROM 210 POUNDS IN 1950 TO OVER 450 POUNDS IN THE 1970'S. PER CAPITA BEEF CONSUMPTION NEARLY DOUBLED IN THAT SAME PERIOD, REFLECTING THE GROWTH IN CATTLE NUMBERS AND INCREASED PRODUCTIVITY. THIS GROWTH DID NOT AFFECT ALL REGIONS AND PRODUCERS EQUALLY, BUT WAS CONCENTRATED IN THE SOUTHWEST AND THE HIGH PLAINS AREAS.

THE PACKING INDUSTRY FOLLOWED SUIT, AND DEVELOPED A SIMILAR TEND, BUILDING MODERN, EFFICIENT PLANTS IN THE MIDDLE OF THE FEEDING AREAS.

THE CATTLE INDUSTRY RAN INTO PROBLEMS IN THE 70'S. CATTLE NUMBERS CONTINUED TO INCREASE RESULTING IN EXCESSIVE BEEF PRODUCTION WHICH WAS MAGNIFIED BY SEVERE DROUGHTS. AT THE SAME TIME, AN EXPANDING WORLD MARKET FOR GRAIN, ALONG WITH GROWING INFLATION, OIL SHORTAGES, AND HIGHER ENERGY COSTS RESULTED IN HUGE LOSSES FOR THE CATTLE INDUSTRY IN LIQUIDATION OF NUMBERS. CATTLE HERD LIQUIDATION BETWEEN 1975 AND 1979 REDUCED TOTAL CATTLE NUMBERS BY 21 MILLION HEAD. THE DECADE ENDED WITH FEWER CATTLE NUMBERS THAN IT STARTED WITH FOR THE FIRST TIME SINCE THE 1920'S.

THE DECLINE IN CATTLE NUMBERS AND BEEF PRODUCTION DURING THE LATE 70'S REDUCED BEEF CONSUMPTION BY ABOUT 18 POUNDS PER CAPITA AND TO THE LOWEST LEVELS IN ABOUT A DOZEN YEARS. THIS CAME ABOUT EVEN THOUGH CONSUMER SPENDING ON BEEF INCREASED 33% DURING 1977-1980. THIS INCREASE WAS FUELED BY RAPID INFLATION AND SMALLER RED MEAT SUPPLIES.
THESE FACTORS, ALONG WITH DECLINING FEED GRAIN COSTS, SET THE STAGE FOR HIGHER CATTLE PRICES, IMPROVED PROFITABILITY, AND MODEST EXPANSION INTO THE EARLY 1980'S. PROFITS AND EXPANSION PROVED TO BE SHORT LIVED AS TOTAL MEAT SUPPLIES INCREASED TO RECORD LARGE LEVELS AND THE NATIONAL ECONOMY BEGAN A MAJOR CORRECTION FROM THE GROWTH AND INFLATION OF THE CARTER YEARS.


THIS LIQUIDATION OF BOTH CATTLE AND HOGS CAUSED THE TOTAL MEAT SUPPLIES TO REMAIN QUITE LARGE. TOTAL MEAT SUPPLIES AND MEAT CONSUMPTION HAVE BEEN AT ALL-TIME HIGH LEVELS DURING THE EARLY 80'S. WE ATE, AS A NATION, OVER 220 POUNDS PER CAPITA--SIX POUNDS ABOVE THE AVERAGE OF A DECADE EARLIER. INCREASED SUPPLIES OF POULTRY AND PORK MORE THAN OFFSET THE SMALLER BEEF SUPPLIES. DURING THE PAST FIVE YEARS RETAIL BEEF PRICES HAVE CHANGED LITTLE, AVERAGING NEAR $2.40 PER POUND. CONSUMER SPENDING FOR BEEF HAS INCREASED AN AVERAGE OF ONLY 1% PER YEAR DURING THIS PERIOD, COMPARED TO AN AVERAGE ANNUAL INCREASE OF 9% DURING THE 1970'S. POULTRY HAS CONTINUED TO GAIN ON THE RED MEATS AND INCREASED THEIR SPENDING IN 1984 BY 15% IN JUST ONE YEAR.
THE AVERAGE VALUE OF CATTLE DECLINED $100 PER HEAD FROM 1980 TO 1985. FED CATTLE PRICES HAVE RANGED BETWEEN A RELATIVELY NARROW BAND, AVERAGING ABOUT $65/CWT WHICH REFLECTS THE FLAT TREND IN RETAIL BEEF PRICES. HOWEVER FEEDER CATTLE AND CALF PRICES HAVE DECLINED OVER 20% AS PRODUCTION COSTS HAVE INCREASED MUCH FASTER THAN FED CATTLE AND BEEF PRICES. THE RESULTS OF STABLE OR DECLINING PRICES AND INCREASING PRODUCTION COSTS CAUSED SERIOUS FINANCIAL LOSSES TO CATTLEMEN, DECLINING EQUITY OF THE INDUSTRY IN TOTAL, AND INCREASING CATTLE HERD LIQUIDATION.

LET US TAKE A LOOK AT HOW THE CATTLEMEN HAVE GOTTEN INTO ECONOMIC TROUBLE. THE CATTLEMAN IS PRIMARILY A MANAGER OF ASSETS. HE HAS A DISPROPORTIONATE LARGE SHARE OF ASSETS COMPOSING FACTORS OF PRODUCTION. RELATIVELY MODEST SWINGS IN CATTLE PRICES OR VOLUME OF TRADE WILL HAVE A SIGNIFICANT IMPACT ON A CATTLEMAN'S INCOME AND PROFITS. THE SITUATION IS MAGNIFIED BY CHANGES IN THE COST OF ASSETS SUCH AS INTEREST RATES. LOWER CATTLE PRICES PLUS LOWER VOLUME PLUS HIGHER CAPITAL COSTS EQUALS EXCEPTIONALLY HIGH LOSSES.

IN THE EARLY 1970'S THE CATTLEMAN RECOGNIZED THAT LOW INTEREST RATES RAISED THE RETURNS ON HIS ASSETS. HIS CHOICE WAS WHETHER TO BORROW ASSETS AND TAKE HIS RETURN IN INCOME, OR TO OWN THE ASSETS AND TAKE IT IN CAPITAL GAINS. HIS DECISION WAS ESSENTIALLY BASED ON HIS RISK ASSUMPTIONS. THOSE WHO BOUGHT ASSETS ASSUMED CONTINUED LOW-INTEREST RATES FOR A RELATIVELY LONG PERIOD. INFLATION WAS RISING, AND SO ASSETS BECAME A BETTER SOURCE OF RETAINING PURCHASING POWER THAN LIQUID ASSETS SUCH AS BONDS, SAVING ACCOUNTS, ETC. THE CHOICE OF WHETHER OR NOT TO BUY WAS BASED ON THE EXPECTED RATE OF INFLATION AND OVER WHAT PERIOD OF TIME.
NOT ALWAYS CONSIDERED WAS THE AMOUNT OF EXPECTED INFLATION ALREADY BUILT INTO THE PRICE. THE RISK FACTOR, THEREFORE, WAS HARD TO ASSESS. IT BECAME MORE SO THE LONGER INFLATION CONTINUED. THE LOW VALUE OF THE DOLLAR STIMULATED THE ECONOMY BY INCREASING EXPORTS, WHILE IT ALSO INCREASED PRESSURES ON INFLATION. THIS INCREASED ASSET VALUES BECAUSE OF RISING AGRICULTURAL SALES. THOSE BUYING ASSETS RATHER THAN LEASING OR BORROWING ASSUMED A LONGER PERIOD OF FOREIGN SALES OR FASTER SALES GROWTH.

THE ECONOMIC GROWTH WAS MOVING ALONG AT A RAPID RATE. THE ENERGY SHOCKS OF 1973 AND 1979 HAD RELATIVELY LITTLE IMPACT ON U.S. ECONOMIC GROWTH WHILE SEEMINGLY ASSURING GREATER INFLATION. THUS, RISKS FOR MANY ASSETS SEEMED TO DISAPPEAR IN THIS WIN-WIN SITUATION OF HIGHER INCOMES FROM ASSETS ALONG WITH CONTINUING INCREASES IN ASSET VALUES. IN SHORT, THE 1970'S APPEARED TO BE THE BEST OF ALL WORLDS: RISING ECONOMIC GROWTH, SLOWLY RISING PRICES, STABLE AND LOW INTEREST RATES, AND INCREASING COMPETETIVENESS IN WORLD MARKETS. IT WAS HARD FOR CATTLEMEN TO BET AGAINST THIS PERIOD. ALONG WITH MANY OTHERS THE CATTLEMEN ACTED WISELY AND CORRECTLY GIVEN THESE ECONOMIC SIGNALS AND CONDITIONS.


THE EARLY 1980'S PERIOD OF LOW CATTLE PRICES, HIGH REAL INTEREST RATES, AND HIGH AND VOLATILE CATTLE AND GRAIN MARKETS REFLECTED IN PART THE GOVERNMENT'S PIK AND DAIRY PROGRAMS.
FOR CATTLEMEN THE COMBINATION OF THESE CONDITIONS MEANT DECLINING INCOMES, HIGHER COSTS, DECLINING LAND VALUE, AND GREATER DEBT COSTS.

BUT THE CORRECTION PHASE FOR THE LAST DOZEN YEARS OF ECONOMIC INSTABILITY IS NOT YET COMPLETE. WE STILL HAVE RELATIVELY HIGH INTEREST RATES, HIGH VALUE OF THE DOLLAR, LARGE DEFICITS REFLECTING OUT-OF-CONTROL GOVERNMENT SPENDING, SLOW WORLD-WIDE ECONOMIC GROWTH ALONG WITH SUCH POSITIVE FACTORS AS A GROWING ECONOMY, LOW INFLATION RATES, AND SMALLER CATTLE NUMBERS. THE TWO PRIMARY AREAS STILL REQUIRING CORRECTION ARE GOVERNMENT SPENDING AND INTERNATIONAL TRADE BALANCES.

CONTINUATION OF UNSUPPORTABLE GOVERNMENT SPENDING CAN ONLY LEAD TO SLOW AND VOLATILE ECONOMIC GROWTH. THIS DEVELOPMENT WOULD DISTORT EFFORTS TO REDUCE THE DEFICITS. AS LONG AS GOVERNMENT COMMANDS SUCH A LARGE SHARE OF ECONOMIC RESOURCES, PRIVATE INVESTMENT AND INCENTIVES WILL BE RETARDED. IN FACT THE BENEFITS OF THE HARD AND COSTLY BATTLE TO REDUCE INFLATION AND INTEREST RATES WILL BE SHORT-LIVED IF GOVERNMENT SPENDING IS NOT REDUCED.

BASICALLY THE CATTLEMAN GOT INTO ECONOMIC TROUBLE BECAUSE HE UNREALISTICALLY EXPECTED THE CONDITIONS OF THE 70'S TO CONTINUE. HE, ALONG WITH MANY OTHERS, RESPONDED REASONABLY TO ECONOMIC SIGNALS BUT RECOGNIZED TOO LATE THAT THESE CONDITIONS WERE UNSTABLE AND COULD NOT CONTINUE.

LENDER PRESSURE HAS FORCED CONTINUED BEEF COW LIQUIDATION IN THE EARLY MONTHS OF 1985. BEEF COW SLAUGHTER IN JANUARY AND FEBRUARY OF THIS YEAR HAS AVERAGED CLOSE TO 20% ABOVE THE SAME WEEKS IN 1984 IN SPITE OF OVER 2 MILLION FEWER COWS. THIS INDICATES THAT ANOTHER LARGE DECLINE IN CATTLE NUMBERS WILL OCCUR THIS YEAR. INCREASED CATTLE ON FEED NUMBERS JANUARY 1, 1985, (UP 7%) AND ON MARCH 1, 1985, WERE STILL UP 5%. COMBINED WITH CONTINUING BEEF COW
LIQUIDATION WILL KEEP CATTLE SLAUGHTER LARGE DURING THE FIRST HALF OF 1985. THE SMALLER COW HERD AT THE BEGINNING OF THE YEAR WILL RESULT IN A FURTHER DECLINE IN THE NUMBER OF CALVES BORN DURING THE NEXT SEVERAL YEARS.

IN ADDITION TO THE DECLINE IN CATTLE NUMBERS, THE NUMBER OF BEEF CATTLE OPERATIONS, EXCLUDING DAIRY, DECLINED BY 22,000 DURING THE LAST FOUR YEARS. THIS WAS A NET REDUCTION IN CATTLE OPERATIONS, AND DOES NOT INCLUDE THOSE THAT CHANGED HANDS DURING THIS PERIOD.

IT IS A RATHER COMMON OPINION THAT THE BEEF INDUSTRY IS MATURE. THE RESULT OF THIS WILL MEAN PER CAPITA MEAT DEMAND WILL NOT GROW AS IN THE PAST. TOTAL MEAT SUPPLIES WILL REMAIN LARGE. COMPETITION BETWEEN MEAT PRODUCERS AND REGIONS WILL INCREASE. PROFIT MARGINS WILL REMAIN NARROW. THE LARGE DECLINE IN THE COW HERD AND FEEDER CATTLE SUPPLIES DURING THE LAST YEAR SUGGESTS THAT ADDITIONAL STRUCTURAL CHANGES WILL OCCUR AS THE INDUSTRY ADAPTS TO A SMALLER SUPPLY. THE SMALLER HERD WILL MEAN INCREASING COMPETITION FOR A DECLINING SUPPLY OF FEEDER CATTLE AND GREATER CONCENTRATION IN THE PACKING AND FEEDING INDUSTRIES.

FINANCIAL RECOVERY WILL BE A SLOW PROCESS. IN ADDITION, THE CURRENT ADJUSTMENT IN CATTLE NUMBERS WILL HAVE A BROAD IMPACT ON CONSUMERS, OTHER SEGMENTS OF AGRICULTURE, AND RELATED INDUSTRIES FOR THE NEXT SEVERAL YEARS. CATTLE SLAUGHTER AND BEEF SUPPLIES WILL DECLINE SIGNIFICANTLY AS HERD LIQUIDATION SLOWS OR ENDS DURING THE NEXT THREE YEARS. A REDUCTION IN CATTLE SLAUGHTER BY CLOSE TO 10% WILL OCCUR AS THE CURRENT LIQUIDATION GRINDS TO A HALT. THE DECLINE IN BEEF SUPPLIES WILL REDUCE PER CAPITA BEEF CONSUMPTION FROM 78 POUNDS IN 1984 DOWN TO ABOUT 70 POUNDS AS THE INDUSTRY STABILIZES. CATTLE NUMBERS ARE EXPECTED TO DECLINE ANOTHER 3 to 4 MILLION HEAD DURING 1985, AND MAY STABILIZE IN 1986 AT ABOUT 105 MILLION HEAD.

HOWEVER THE FINANCIAL CRUNCH IS SO SEVERE ON MANY CATTLEMEN THAT AN ADDITIONAL 5 MILLION HEAD COULD BE FORCE LIQUIDATED TO IMPROVE CASH FLOWS. THIS COULD OCCUR EVEN THOUGH PRICES WILL IMPROVE. IT WILL NOT HAPPEN SOON ENOUGH OR IN AMOUNTS GREAT ENOUGH TO HELP THOSE WHO ARE BORDERLINE ON SURVIVAL.

THE LOWS IN THE CATTLE NUMBERS SHOULD OCCUR IN 1987, RESULTING IN PEAK LIVE CATTLE AND CALF PRICES DURING THAT TIME. AS THE PRICE OF BEEF RISES IT WILL ALMOST BECOME A "LUXURY" FOOD AVAILABLE TO THOSE WILLING TO PAY A PREMIUM FOR IT. THE QUALITY OF OUR LIVE CATTLE AND BEEF MUST IMPROVE. THERE IS A BIG DEMAND FOR HIGH CHOICE AND EVEN PRIME ON THE MORE EXPENSIVE CUTS. HAMBURGER CONSUMPTION AS A PERCENTAGE OF BEEF HAS DIPPED. MOST FAST FOOD RESTAURANTS ARE PROVIDING A WIDER VARIETY ON THEIR MENU. THE COMPETITION FROM IMPORTED MEAT AND VEGETABLE SUBSTITUTES REMAINS STRONG. HAMBURGER WILL CONTINUE TO BE POPULAR PRIMARILY BECAUSE IT IS THE CHEAPEST FORM OF BEEF.
NOW IS A TERRIFIC OPPORTUNITY TO IMPROVE THE CATTLE INDUSTRY BY REBUILDING HERDS WITH SUPERIOR GENETICS AND MORE EFFICIENT PRODUCTION METHODS. THE HEAVY LIQUIDATION AND CULLING HAS PRETTY WELL WIPED OUT MANY POOR-QUALITY AND INEFFICIENT FEMALES. IN THE SOUTHEASTERN PART OF THE UNITED STATES CATTLEMEN WITH ABOVE AVERAGE MANAGEMENT ABILITY AND THEIR INHERENT LOW COSTS OF PRODUCTION COULD BECOME MORE COMPETITIVE IF THEY WERE TO PRODUCE HIGHER QUALITY CATTLE USING THE KNOWLEDGE AND TECHNOLOGY THAT IS ALREADY AVAILABLE.

ONE OF THE WEAKNESSES OF THIS AREA IS THAT BEEF COW HERD IMPROVEMENT IS RETARDED BY A LARGE PERCENTAGE OF OPERATORS BEING SMALL PRODUCERS. THESE SMALL PRODUCERS ARE EITHER NOT WILLING OR NOT ABLE TO CHANGE AND IMPROVE WITH THE TIMES. ANOTHER PROBLEM IS THE FACT THAT BEEF COWS ARE A SUPPLEMENTARY ENTERPRISE TO MANY FARM OPERATIONS, AS WELL AS TO THOSE EARNING THE MAJORITY OF THEIR INCOME ELSEWHERE.

PROFITABILITY IN THE CATTLE INDUSTRY WILL NOT BE WIDESPREAD IN THE FUTURE. THERE IS AN EXCESS OF FEEDLOT CAPACITY, ABUNDANT SLAUGHTER CAPACITY, AND SURPLUSES OF BOTH FEED GRAINS AND PASTURE LAND. IN ADDITION HIGHER BEEF PRICES WILL BRING CONSUMER RESISTANCE, ENCOURAGE MORE CONSUMPTION OF POULTRY AND PORK, CAUSE AN INCREASE IN IMPORTS, AND LIMIT BEEF CONSUMPTION.

ABOUT THE MOST POSITIVE FACTOR WILL BE THE PROBABILITY THAT WITHIN THE NEXT TWO OR THREE YEARS MAY BE THE BEST TIME TO BUY LAND IN OUR LIFETIME. THE PRIMARY PROBLEM WILL BE TO MAKE IT CASH FLOW UNTIL THE AGRICULTURAL ECONOMY TAKES OFF AGAIN, WHICH IT MOST CERTAINLY WILL. IT'S ONLY A MATTER OF TIME.
"HISTORY OF THE CATTLE FEEDING INDUSTRY"
GUYMON, OK. MAY 8, 1985

IT IS A PLEASURE AND AN HONOR TO BE ASKED TO PARTICIPATE IN THIS GREAT PLAINS CATTLE FEEDERS CONFERENCE HERE IN THE HEART OF TODAY'S CATTLE FEEDING INDUSTRY.

I WILL RELATE TO YOU THE STORY OF CATTLE FEEDING AS I HAVE SEEN IT AND HAVE BEEN PART OF IT FOR THE PAST FIFTY-FIVE YEARS.

CATTLE FEEDING ORIGINATED IN THE EASTERN CORN BELT ABOUT THE TURN OF THE CENTURY. THE INDUSTRY HAS SLOWLY MOVED WESTWARD. AS OUR COUNTRY WAS DEVELOPING FROM THE EASTERN COAST TO THE MIDWEST, THE GREAT RAILROAD SYSTEM DEVELOPED WITH CHICAGO AS THE HUB.


I AM SURE THAT IT IS DIFFICULT FOR MOST OF YOU TO REALIZE HOW MUCH DIFFERENT THE LIVESTOCK INDUSTRY WAS WHEN IT DEPENDED ENTIRELY ON RAIL TRANSPORTATION. THERE WERE MANY FINE RAILROADS RUNNING FROM EAST TO WEST, BUT NOT VERY MANY OR VERY GOOD CONNECTING ROADS NORTH AND SOUTH.

RAIL TRANSPORTATION BUILT THE CENTRAL MARKET SYSTEM WHICH CONSISTED OF LARGE STOCKYARDS, PACKING HOUSES, COMMISSION MEN, ORDER BUYERS AND SPECULATORS. THESE MARKETS INTERCEPTED THE
LIVESTOCK AS IT MOVED FROM WEST TO EAST. STARTING WITH CHICAGO AS THE BIGGEST AND BEST BECAUSE IT WAS FURTHEST EAST; THEN MOVING TO THE MISSOURI RIVER MARKETS, SIOUX CITY, OMAHA, ST. JOE, AND KANSAS CITY. ST. PAUL WAS NORTH AND SERVED THE NORTHERN TIER OF STATES. DENVER WAS THE FURTHEST WEST. ITS MAIN CLAIM TO FAME WAS THE FEEDER MARKET IN THE FALL WHEN THE HIGH ALTITUDE FEEDERS CAME TO MARKET.

CATTLE FEEDING WAS BASICALLY CONFINED TO THE CORN BELT STATES FOR TWO REASONS. THE RAIL TRANSPORTATION RATES WERE ALL BASED ON A WEST TO EAST MOVEMENT. THE SECOND REASON WAS THE FACT THAT CORN WAS ALMOST THE ONLY CROP. THERE WAS LITTLE EXPORT MARKET, SO LIVESTOCK WAS THE MEANS OF TURNING THE CROP INTO CASH.

THOSE CORN BELT CATTLE FEEDERS WERE NOT REALLY CATTLE FEEDERS. THEY ONLY BOUGHT CATTLE TO USE THEIR OWN CORN CROP. THE CORN WAS FED WHOLE AND HOGS FOLLOWED THE CATTLE. HOGS WERE BASIC AND RAISED ON THE FARM SO THE CORN FIRST WENT TO THE HOGS THEN THE SURPLUS WAS FED TO THE CATTLE. WHEN A CORN BELT FEEDER PURCHASED CATTLE, HE FED THEM UNTIL HE RAN OUT OF CORN. MAYBE THE ANIMALS WEIGHED 900 POUNDS OR MAYBE 1900 POUNDS.

WITH THIS SYSTEM ONLY ABOUT ONE FOURTH OR LESS OF THE CATTLE SLAUGHTERED WERE FED CATTLE. THE BALANCE WERE PARTIALLY FATTENED OR STRAIGHT GRASS CATTLE. THEY WERE ALL CLASSIFIED TOGETHER AS BUTCHER CATTLE. THE AVERAGE AGE OF CATTLE SLAUGHTERED WAS ALMOST 48 MONTHS COMPARED TO TODAY's 25 MONTHS.

IT WAS WITH THIS BACKGROUND THAT WARREN MONFORT, BERT AVERY AND I SAT ON THE STOCKYARD'S FENCE WAITING FOR THE SWITCH ENGINE
TO COME TO LOAD OUR PARTIALLY FATTENED CATTLE FOR THE DENVER MARKET IN THE SPRING MONTHS. WE HAD OBSERVED THAT USUALLY EVERYONE BOUGHT FEEDERS IN THE FALL, SO THE MARKET ON FEEDERS WAS ALWAYS HIGH. THE LARGE NUMBERS OF CATTLE SOLD IN THE SPRING USUALLY LOWERED THE MARKET: THEREFORE CATTLE FEEDING PROFITS WERE MINIMAL. AS SOON AS THE HEAVY SPRING SUPPLY WOULD DECREASE FED CATTLE MARKETS WOULD MOVE UP AND STAY HIGHER UNTIL THE FOLLOWING JANUARY

WE DECIDED THAT WE COULD FEED CATTLE TO A PROPER UNIFORM FINISH AND WE COULD ALSO FEED FOR THE PROFITABLE TIMES OF YEAR. THAT WAS A BOLD DECISION. WE HAD TO GO TO NEBRASKA AND SHIP CORN WEST. WE WOULD NEED TO GO TO TEXAS AND SHIP CATTLE NORTH. THIS WAS NOT THE NORMAL MOVEMENT, THE FREIGHT RATES WERE AGAINST US. WE BELIEVED THAT OUR BETTER WEATHER AND THE SURENESS OF OUR IRRIGATED CROPS WOULD OFFSET THE ADDED FREIGHT. MOST EVERYONE THOUGHT THE IDEA WOULDN'T WORK. COLORADO AGGIES SET UP EXPERIMENTS TO PROVE THAT OUR AREA COULD ONLY USE OUR BY-PRODUCTS. THE UNIVERSITY BELIEVED THAT YOU HAD TO SHIP THE CATTLE TO THE CORN, NOT THE CORN TO THE CATTLE.

THIS ALL STARTED IN THE EARLY 1930'S. FARMING STILL USED HORSES. OUR CATTLE WERE FED WITH TEAMS AND WAGONS PLUS MEN WITH SCOOP SHOVELS. THE FEED BUNKS WERE BUILT FROM PLANKS TWELVE FEET LONG AND FOUR FEET WIDE BUTTED END TO END SOMEWHERE NEAR THE CENTER OF THE PEN. AS TRUCKS DEVELOPED WE FOUND THAT THEY COULD NOT OPERATE IN MUDDY PENS. THEY WOULD SLIDE INTO THE BUNKS OR GET STUCK. THAT SIMPLE PROBLEM IS WHY YOU HAVE BUNK LINE FEEDING
TODAY. TRYING TO BUILD THOSE FIRST OUTSIDE BUNKS WITH NOTHING BUT LUMBER TO WORK WITH BECAME A MAJOR CHALLENGE. FOR EXAMPLE: DO YOU PUT A WOODEN FLOOR FOUR OR SIX INCHES OFF THE GROUND? THIS MADE A FINE BUNK, BUT IT ALSO MADE A GREAT RAT-BREEDING LOCATION. SO THOSE BUNKS HAD TO BE TORN OUT AND REBUILT. HOW WIDE SHOULD THE OUTSIDE BUNK BE? HOW MUCH SLOPE ON THE OUTSIDE WALL? HOW HIGH SHOULD THE BUNK BE SO CATTLE DON'T WASTE FEED?

I HAVE ELABORATED ON THIS ONE PROBLEM TO ILLUSTRATE THE PIONEERING THAT THE THREE OF US UNDERTOOK IN DEVELOPING CATTLE FEEDLOTS. THERE WERE NO VETERINARIANS TRAINED IN LARGE ANIMAL WORK. DR. DON MACKEY WAS THE FIRST GRADUATE OF C.S.U. TRAINED FOR CATTLE CARE. HE TOOK OVER THE THREE FEEDLOTS THE DAY HE GRADUATED. WE HAD NO VACCINES OR ANTIBIOTICS, ONLY SIMPLE TREATMENTS. FOR EXAMPLE, WE BUILT A SMALL PEN SIX BY EIGHT FEET WITH A CONCRETE BOTTOM AND WALLS A FOOT HIGH. WE FILLED THIS WITH A SATURATED SOLUTION OF POTASSIUM PERMANGANATE. WHEN A STEER HAD FOOTROT, HE STOOD IN THIS FOOTBATH FOR AN HOUR.

ABOUT THIS SAME TIME FRAME, CALIFORNIA STARTED FEEDING LOTS OF CATTLE. THEIR POPULATION HAD GROWN. THEIR WINTER GRASS IN NORTHERN CALIFORNIA PRODUCED A GOOD SUPPLY OF FEEDERS IN THE SPRING. THIS CORRESPONDED WITH A SUPPLY OF MANY BY-PRODUCTS FROM THEIR FARMING. THEY FED EVERYTHING FROM WALNUT AND ALMOND HULLS TO REJECTED BROCCOLI AND BRUSSELS SPROUTS. THE HOWARD BROWN LOT AT SANTA MARIA FED WET PULP WITH A DONKEY ENGINE PULLING SMALL FLAT CARS FEEDING BUNKS ON BOTH SIDES WITH THE TRACK IN THE MIDDLE. I WENT TO CALIFORNIA TO SEE THESE OPERATIONS TO GET NEW IDEAS.
BY THE LATE THIRTIES AND EARLY FORTIES WE HAD PROVED THAT WE COULD FEED CATTLE ON A YEAR-AROUND BASIS. WE MADE MONEY FEEDING CATTLE. NO THOUGHT WAS GIVEN TO CUSTOM FEEDING. WE TOOK THE ATTITUDE THAT IF WE BOUGHT AND SOLD SEVERAL TIMES A YEAR WE WOULD BE NO DIFFERENT THAN ANY MANUFACTURING COMPANY. WE THOUGHT OF OURSELVES AS MANUFACTURING BEEF.

THE WAR YEARS SLOWED PROGRESS, BUT THE NEED FOR MEAT WAS GREAT. WE HAD PRICE CEILINGS ON FEEDER CATTLE, FAT CATTLE AND GRAIN. PROFITS WERE SMALL BUT DEPENDABLE.

CHAIN FOOD STORES HAD SLOWLY SPREAD OVER THE UNITED STATES JUST BEFORE THE WAR. THEY BOUGHT BEEF BY THE CARLOAD, AND WITH RIGID SPECIFICATIONS. THE BIG PACKERS DID NOT LIKE THE CHAIN STORE GROWTH. THEY HAD ALWAYS BEEN ABLE TO SUPPLY THE SMALL STORES WITH THEIR BRAND OF BEEF QUALITY. SWIFT’S PREMIUM, ARMOUR’S STAR, WILSON’S CERTIFIED WERE NOT UNIFORM GRADES OF BEEF. THE BRAND NAME WAS ONLY THE BEST BEEF THAT CAME THROUGH THE PLANT THAT DAY. TOMORROW IT WAS A DIFFERENT PRODUCT. YOU CAN WELL REALIZE WHY THEY DIDN’T LIKE THE SPECIFICATIONS OF THE CHAINS.

BEEF GRADING WAS STARTED IN 1927; HOWEVER IT HAD NEVER AMOUNTED TO ANYTHING BECAUSE THE BIG PACKERS DIDN'T WANT IT. PRICE CONTROL BROUGHT MANDATORY GRADING. WHEN THE WAR WAS OVER THE PRODUCERS REALIZED BEEF GRADING WAS IMPORTANT. THE OLD AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION HELD A THREE DAY BEEF GRADING MEETING IN CHICAGO IN 1950 WITH THE IDEA OF IMPROVING AND DEVELOPING WORKABLE BEEF GRADING STANDARDS. THE CHAINS WERE INCREASING AND IT WAS OBVIOUS THAT THEY HAD TO HAVE STANDARDS TO WORK FROM. THE U.S. MILITARY WAS A BIG BUYER, AND THEY ALSO HAD TO HAVE STANDARDS.

I ATTENDED THAT MEETING AS ONE OF SEVERAL A.N.C.A. REPRESENTATIVES. THE CORN BELT CATTLE FEEDERS WERE ALSO IN ATTENDANCE. BELIEVE IT OR NOT, THEIR PROPOSAL WAS THAT FOR BEEF TO GRADE PRIME IT SHOULD BE GRADED WHEN THE STEERS WERE ALIVE. THE STANDARD FOR PRIME GRADE WAS THAT YOU COULD PUT A BUSHEL OF CORN ON THE STEER'S BACK. FORTUNATELY, THEY DID NOT PREVAIL. WE ESTABLISHED GOOD BEEF GRADING STANDARDS FOR THAT POINT IN TIME. IT WAS THIS ACCEPTANCE OF GOVERNMENT BEEF GRADING IN LATE 1950 THAT SET THE STAGE FOR INTELLIGENT CATTLE FEEDING TO PRODUCE A STANDARD PRODUCT. THE BEEF GRADES ADOPTED IN 1950 WERE THE FOUNDATION FOR THE SPECIALIZED BEEF SLAUGHTER PLANTS AND CATTLE FEEDING IN THE GREAT PLAINS AREA. WITHOUT GOVERNMENT GRADING OF BEEF, TODAY'S CATTLE FEEDING INDUSTRY COULD NOT EXIST.

TWO OTHER GREAT THINGS HAPPENED TO THE CATTLE INDUSTRY BECAUSE OF WORLD WAR II TECHNOLOGY. THE SEMI TRUCK MADE IT POSSIBLE TO BACK UP TO A CHUTE GATE ON ANY RANCH, FARM OR FEEDLOT
AND MOVE CATTLE NORTH, SOUTH, EAST AND WEST. THE RAILROADS AND THE CENTRAL MARKETS WERE NO LONGER NEEDED. THE SECOND INVENTION THAT HAS REVOLUTIONIZED AGRICULTURE WAS THE HYDRAULIC PUMP. NOW WE HAD POWER THAT WOULD OPEN AND CLOSE VALVES, LIFT UNBELIEVABLE AMOUNTS OF WEIGHT ON FRONT-END LOADERS PLUS HUNDREDS OF OTHER USES. I AM SURE IF YOU ANALYZE YOUR FEEDLOT OPERATION THAT YOU WILL REALIZE THAT THE SINGLE MOST IMPORTANT SOURCE OF POWER IS THAT HYDRAULIC PUMP.

WARREN MONFORT HAD A GREAT MECHANIC. HIS NAME WAS LOWELL ADAMS. FARR FARMS HAD A GREAT MECHANIC. HIS NAME WAS LAWRENCE HURT. THESE TWO MEN WERE BOTH NATURAL MECHANICS; NEITHER MAN EVER GRADUATED FROM HIGH SCHOOL. WE BOTH BOUGHT WELDING EQUIPMENT AND TRAINED THE MEN HOW TO WELD WHEN ELECTRIC WELDING MACHINES WERE FIRST DEVELOPED. WARREN AND I KNEW THE KIND OF MACHINERY WE NEEDED TO OPERATE FEEDLOTS. WE COULD DRAW PICTURES AND COUNCIL WITH OUR MECHANICS. THEY WOULD CUT AND PIECE, TRY AND FAIL, TRY AGAIN. FINALLY WE BUILT FEED TRUCKS, SILAGE LOADERS, MANURE LOADERS, AND ALL KINDS OF EQUIPMENT IN OUR SHOPS. WE NEVER BUILT ANYTHING FOR ANY OTHER USER, BUT WE GLADLY GAVE OUR IDEAS TO ALL. THE HARSH FEED TRUCKS THAT YOU USE TODAY WERE DESIGNED IN OUR SHOPS. MR. HARSH WAS A SUBMARINE NAVY MAN WHO HAD LEARNED THE GREAT VERSATILITY OF THE HYDRAULIC PUMP. HE HELPED US. WE HELPED HIM.

AFTER THE WAR THE BEEF BUSINESS GREW RAPIDLY. THE NEW PACKERS MADE MORE COMPETITION. WE HAD GOVERNMENT BEEF GRADING WHICH PRODUCED UNIFORM BEEF WHICH THE PUBLIC LIKED. THE CHAIN
STORE MOVEMENT GREW RAPIDLY. THESE BIG STORES LOOKED AT BEEF AS THE MOST IMPORTANT ITEM IN THEIR FOOD STORE. BEEF ENJOYED MORE ADVERTISING, MORE FEET OF COUNTER SPACE THAN ANY OTHER PRODUCT. OUR U.S. POPULATION, PARTICULARLY THE WORKERS, ENJOYED RISING INCOMES AND MORE PRODUCTIVITY EVERY YEAR. INFLATION WAS MILD: CONSEQUENTLY THESE WORKERS HAD DISCRETIONARY INCOME OVER AND ABOVE THEIR MONTHLY PAYMENTS. THEIR STANDARD OF LIVING GREW RAPIDLY. THEY DEMANDED MORE MEAT, MILK AND EGGS.

EVERY YEAR THE CATTLE POPULATION INCREASED. CATTLE FEEDERS FED MORE AND MORE CATTLE UNTIL BUTCHER CATTLE WERE VIRTUALLY ELIMINATED. THE ECONOMICS OF AN EVER INCREASING SUPPLY AND AN EVER INCREASING PRICE WAS CONTRARY TO THE LAWS OF ECONOMICS. THOSE WERE GREAT YEARS FOR THE CATTLE INDUSTRY.

I HAVE NOT MENTIONED THE INTERIOR PACKERS, SUCH AS RATH AND MORRELL. THESE PACKERS WENT INTO THE HEART OF THE CORNBELT IN THE 1930'S TO BE CLOSER TO HOG PRODUCTION. LATER THEY ADDED CATTLE. THEY DEPENDED ON RAIL TRANSPORTATION, BUT THEY SIDE-STEPPED THE EXTRA COST OF THE CENTRAL MARKET SYSTEM. THESE PACKERS WERE GREAT BENEFACITORS OF THE CHAIN STORE GROWTH AFTER WORLD WAR II. THEIR SUCCESS SET THE PATTERN FOR IOWA BEEF PACKERS TO BUILD SPECIALIZED PLANTS FOR BEEF WHERE THE CATTLE WERE FED.

HYBRID CORN AND HYBRID MILO SEED ALSO HAD A TREMENDOUS IMPACT AFTER THE WAR YEARS. MILO HAD BEEN GROWN IN THE PLAINS AREA PARTIALLY AS A GRAIN AND PARTIALLY AS A WINTERING FEED. I WELL REMEMBER MANY BUYING TRIPS TO AMARILLO. WE WOULD LOOK AT
CATTLE ON WHEAT PASTURE OR YEARLINGS ON GRASS, BUT THE OWNER ALWAYS POINTED OUT HOW MANY BUNDLES HE HAD IN CASE BAD WEATHER CAME ALONG. I ALSO REMEMBER ATTENDING MEETINGS AT TEXAS A&M WHERE THE FACULTY KEPT TELLING THE RANCHERS THAT SOMEDAY THEY SHOULD FEED THE CATTLE IN TEXAS AND NOT SHIP THEM TO COLORADO.

WE COULD NOT GROW OPEN POLLINATED CORN IN NORTHERN COLORADO. IN THE EARLY YEARS OUR CORN WAS ALL SHIPPED IN FROM ELEVATORS BETWEEN GRAND ISLAND AND OMABA, NEBRASKA. TODAY ON OUR GOOD FARMS IN COLORADO WE CAN RAISE TWO HUNDRED BUSHELS OF CORN TO THE ACRE. IN FACT, CORN IS GROWN ON MORE ACRES IN COLORADO THAN ANY OTHER CROP. YUMA COUNTY, COLORADO, PRODUCES MORE TOTAL BUSHELS OF CORN THAN ANY OTHER COUNTY IN THE UNITED STATES.

THE GREAT IMPETUS TO YOUR HIGH PLAINS AREA WAS THE DEVELOPMENT OF THE OGA ALALLA ACQUIFER USING CENTER PIVOT SPRINKLER SYSTEMS.

THE POTENTIAL FOR CATTLE FEEDING IN THE HIGH PLAINS HAD ALWAYS EXISTED BECAUSE YOU WERE SURROUNDED WITH MORE FEEDER CATTLE THAN ANY OTHER AREA IN THE UNITED STATES. WHEN GRAIN PRODUCTION DEVELOPED ALONG WITH TRUCKS AND GOVERNMENT BEEF GRADING: THEN THE BEEF PACKERS COULD BUILD PLANTS AND MINIMIZE DISTRIBUTION COSTS. THE COMBINATION OF FARMERS WHO WERE ABLE AND WILLING TO FEED CATTLE AS WELL AS LARGE RANCHERS WHO WANTED TO FEED CATTLE MADE COMMERCIAL CATTLE FEEDING ATTRACTIVE. THIS WAS A NEW DEVELOPMENT IN THE CATTLE INDUSTRY.
WITH THE DEVELOPMENT OF MANY LARGE FEEDLOTS IN A RELATIVELY CONCENTRATED AREA WHERE MOST OF THE CATTLE WERE BEING CUSTOM FED, THE NEED FOR CATTLE FUTURES DEVELOPED. TODAY THEY ARE A DEFINITE PART OF THE CATTLE FEEDING INDUSTRY.

WE HAVE QUICKLY REVIEWED THE CATTLE FEEDING INDUSTRY OF THE PAST FIFTY YEARS. IT IS VERY EVIDENT THAT THE INDUSTRY HAS CHANGED DRAMATICALLY. IT IS STILL A CHANGING INDUSTRY, AND IT MUST CHANGE FOR THE BETTER OR WE WILL GRADUALLY SEE CATTLE AND BEEF DISAPPEAR MUCH THE SAME AS THE SHEEP INDUSTRY HAS. THE FEEDERS IN THIS GREAT PLAINS AREA (LITERALLY THE MEN IN THIS ROOM TODAY) WILL DETERMINE THE FUTURE OF THE CATTLE INDUSTRY.

THE WESTERN HIGH PLAINS AREA IS NOW FEEDING ALMOST HALF THE CATTLE FED. AS BEEF CONSUMPTION GOES DOWN THIS AREA WILL FEED A HIGHER PERCENT BECAUSE THIS IS THE AREA OF THE UNITED STATES WHERE EVERYTHING IS IN PLACE TO FEED CATTLE MORE EFFICIENTLY THAN ANY OTHER AREA.

WE NO LONGER HAVE AN EVER-EXPANDING MARKET FOR BEEF. OUR CONSUMERS DO NOT HAVE THE DISCRETIONARY INCOME THEY ONCE HAD. OUR CUSTOMERS ARE CHANGING THEIR LIFE STYLES AND THEIR EATING HABITS. IT IS OUR RESPONSIBILITY AS CATTLE FEEDERS TO PRODUCE THE FINEST BEEF POSSIBLE AT THE LOWEST PRICE POSSIBLE IN ORDER TO COMPETE WITH OTHER MEAT PROTEIN.

THE CATTLE INDUSTRY HAS GROWN AND CHANGED WITH OUR COUNTRY'S NEEDS FOR THE PAST HUNDRED YEARS. IT HAS ALWAYS BEEN AN UNREGULATED, UNDISCIPLINED INDUSTRY DEPENDENT ON THE LAW OF AVERAGES. THAT IS THE GREAT WEAKNESS, THE ACHILLES HEEL OF THE
BEEF INDUSTRY. I DO NOT BELIEVE ANY INDUSTRY OR BUSINESS CAN EXIST FOR LONG IN TODAY'S HIGHLY COMPETITIVE SOCIETY THAT ONLY HAS AVERAGE PRODUCTS.

THERE ARE THREE THINGS THAT MUST BE DONE TO IMPROVE THE CATTLE INDUSTRY SO IT CAN BE COMPETITIVE. FIRST, RANCHERS MUST BREED CATTLE THAT GAIN RAPIDLY; THEY MUST FINISH AT A WEIGHT TO FIT THE BOX; THEY NEED TO HAVE THE ABILITY TO BE FINISHED WITH A HIGH PERCENTAGE OF YIELD GRADE ONES AND TWOS--NEVER OVER THREES.

THE SECOND THING THAT MUST HAPPEN IS FOR CATTLE FEEDERS TO BE ABLE TO KNOW THAT THE FEEDER ANIMALS I HAVE JUST DESCRIBED ARE WORTH A PREMIUM, AND WE MUST PAY A PREMIUM TO ENCOURAGE MORE PRODUCTION OF THAT KIND. IF A RANCHER TRULY HAS SUPERIOR CATTE, HE SHOULD FEED THEM HIMSELF IN ORDER TO GET THE PREMIUM HE DESERVES. WE HAVE TALKED ABOUT THESE FACTS FOR YEARS, BUT FEW RANCHERS GET THE BENEFIT OF THEIR IMPROVED BREEDING.

THE THIRD THING THAT MUST HAPPEN IS TO HAVE ALL FED CATTLE YIELD GRADED. FEEDLOTS ALL FEED MORE OR LESS FOR A STANDARD OF SEVENTY PERCENT CHOICE, THE BALANCE NO ROLLS. NO ROLLS CAN BE MOST ANYTHING. THEY INCLUDE THE HIGHLY DESIRABLE CATTLE JUST A FRACTION UNDER CHOICE. THEY ALSO INCLUDE THE FOUR'S AND FIVE'S THAT THE PACKER WOULD NOT LET THEM ROLL, ALONG WITH ALL THE MISFITS

A NO ROLL CARCASS YIELD GRADE ONE, TWO OR LOW THREE IS WORTH AS MUCH AS A CHOICE. IF WE AS FEEDERS KNEW THAT WE WERE GOING TO GET A PREMIUM FOR ALL ONES AND TWOS WHETHER THEY WERE CHOICE OR NO ROLLS WE COULD DO A BETTER JOB OF FEEDING AND SUPERIOR CATTLE WILL GRADE A HIGH PERCENT ONES AND TWOS.
I HAVE TRACED THE HISTORY OF CATTLE FEEDING DURING THIS CENTURY. OUR CATTLE INDUSTRY IS SLOWLY LIQUIDATING AND PRODUCERS ARE BEING FORCED OUT OF PRODUCTION BECAUSE OF THE ECONOMICS OF AVERAGES. WHEN CATTLE WERE FED BY THOUSANDS OF CATTLE FEEDERS IN HALF THE STATES OF THE NATION, THERE WAS LITTLE WAY TO IMPROVE THE INDUSTRY. TODAY LITERALLY HALF OF THE CATTLE FED IN THIS COUNTRY ARE IN THE HIGH PLAINS AREA. IN ANOTHER VERY FEW YEARS IT WILL BE A HIGHER PERCENT. YOU ARE THE LEADERS--IF YOU WANT TO CONTINUE TO FEED CATTLE FOR THE NEXT CENTURY. YOU MUST HELP DEVELOP SUPERIOR CATTLE BY PAYING A PREMIUM FOR THEM. YOU MUST SELL THEM FOR A PREMIUM. YIELD GRADE TWOS ARE WORTH AT LEAST THREE DOLLARS PER CWT MORE THAN THREES BECAUSE OF THE CUTOUT VALUE. YOU CAN RECEIVE THIS VALUE IF YOU PRODUCE ENOUGH OF THEM. THESE PRICE ADVANTAGES CANNOT BE REALIZED AS LONG AS THE INDUSTRY WORKS WITH AVERAGES.

YOU HAVE THE FUTURE IN YOUR HANDS.
Boise, Idaho
May 29, 1985

Arrived in Boise at 10:00 A.M. and left at 3:40 the same afternoon, spending the entire time at Agri-Beef, Inc. and talking primarily with Rich Hormachea.

Rich Hormachea is an individual who owns two feedlots in Idaho. Bob Rebholz is another individual who owns two feedlots—one in Idaho and one in Washington. Both men started their own feedlots years ago and gradually grew in size. During those years there were several local packers in the Idaho area and also a demand from slaughter plants in Washington, Oregon, and the San Francisco area. This area has access to large numbers of feeder cattle along with large quantities of by-products—primarily potato waste, alfalfa hay, corn silage, barley, wheat, and some high moisture corn.

Agri Beef, Inc. is a partnership venture between Rich Hormachea and Bob Rebholz. They do many different things. They buy feeder cattle for other feedlots. They have a cattle loan company. They have a grain company which buys the grain for their feedlots and for other feeders also. They even buy some grain to ship for export from Portland. They have a drug company where they sell the feedlots their supplies primarily on the telephone. They have a computer company which sells and/or leases both IBM machines and their own produced software.

Each of them individually own their feedlots, and they are operated as separate entities on an individual basis. The grain company, for example, buys the grain for their four feedlots but they buy, sell, and deliver to each feedlot and make a profit on it. These various companies keep their own feedlots individually identified, but they have the advantage of common buying of many items. They work closely together sharing responsibilities on their partnership activities and doing their own business in their own way. This is a very unusual operation.

They both feed potato waste, contracting the waste for many months ahead. The delivery of it is very erratic. They get all different kinds of products, and it is contracted for different prices. For example, the potato peeling slurry product is 85% water, while the rejected french fried potatoes that are dropped out because of quality prior to freezing the finished product are a 30% dry matter product and they have a 30% fat content. So they have a lot more feed value. There are other products in between. They must put these products into a pit silo on a daily basis. It bubbles and ferments. They constantly feed out of the pit. Because of the high moisture of the potatoe waste and the structure of the feed, they use high moisture corn and also dry rolled corn. They do not flake because the fines are an advantage to mix with the wet product.

The Northwest is a premium beef market, and consequently they receive a higher price for their cattle than most other areas of the country. As the cattle feeding industry changed and the new beef slaughter plants developed, their area became more difficult in which to operate. Slowly the small plants closed and they were losing their markets.

Missouri Beef built a plant just outside of Boise in 1969–70. They operated it for about six months, closed it for six months, and then operated it again for a little more than six months. They tried to use cornbelt tactics on these specialized Idaho feeders. They went so far as buying cattle in Northern California and shipping them to Boise for slaughter in order to prove to the feeders that they did not have to have their supply.
Obviously they did not get along with people very well, so they were forced to close the plant.

The Atomic Energy Commission had the big wartime project at Hanford, Washington. In their effort to help the economy they furnished part of the money to build a cattle slaughter plant in Pasco, Washington in partnership with Cudahy. Cudahy thought that with plenty of money they could be successful, but here again it was an old-line eastern company that did not operate in a manner to please the local people.

Feeders in both of these areas were slowly being put out of business because they no longer had a market. The San Francisco area plants closed one by one. The Washington and Oregon feeders had to make the decision to get out of the cattle feeding business or do something different. Rich Hormachea and Bob Rebholz took an option on the Missouri Beef plant which had been closed for over a year at about 1/3 of the cost of the plant when it was built. They took the option as two individuals for a year to see what could be done. They visited every major beef slaughterer in the country trying to generate some interest in buying the plant. They were not successful in that effort. At about the same time, Bob Kemp retired from Iowa Beef and went to Pasco, Washington with Bob McGregor and they purchased the Cudahy plant. However they had difficulty making it work. Out of all of this negotiating and attempts to operate finally came the agreement of Northwest Feeders (which is a co-op) and Iowa Beef Packers.

The Co-op hired Bob Kemp to manage it and be the liaison between them and Iowa Beef. He had been a life-long employee of Iowa Beef, so it was a natural association. They, the owners of the co-op, agreed to feed certain numbers of cattle. Iowa Beef agreed to modernize the plants and put their full effort into merchandizing the beef. Half of the cattle were to be fed by the feeders, and half by Iowa Beef. Feedlot profits were to be shared between the co-op and Iowa Beef. The packing house profits were to be shared between Iowa Beef and Northwest Feeders.

They had a relatively simple agreement that the cattle would be slaughtered on a planned schedule. All cattle would be paid for in the beef. The price would be arrived at using the yellow sheet on a daily basis. They received the full yellow sheet price plus $1.00/cwt premium for 1's and 2's. They paid $30 per head for slaughter and they received the USDA weekly drop price.

The feedlots had some commercial feeding customers. The feedlot profits were for total feedlot operations including Iowa Beef, who was just another customer. This operation was very satisfactory for several years. They consistently made more money than other feeders because of the natural advantages they had. The Northwest was a premium market. Iowa Beef, with their tremendous efficiencies, were able to box the beef and sell basically all of it in Oregon and Washington.

Then two things happened. Gradually, as the feedlots expanded and fed more and more cattle, they saturated the northwest market as far as their market share was concerned. About 2/3 of the Washington/Oregon market is supplied by these two plants. The rest of the cattle slaughter industry shares the other 1/3. This means that they must market the overflow beef into California. A high freight bill with no back-haul has taken some of the advantage away from them. It costs them as much or more to haul beef to Los Angeles as it does for Iowa Beef to ship beef from Amarillo or Garden City. Occidental Petroleum purchased Iowa Beef. Mr. Armand Hammer did not like to feed cattle, so he insisted that
they stop feeding in the Northwest. This meant that they had a new contract where they did not share in each other's profits. They merely sold their beef on the old contract basis. With fewer and fewer cattle being sold as carcass beef, the yellow sheet became less and less dependent. Many days there are hardly any carcass sales. There is nothing wrong with the sheet, but there is simply no carcass beef. What is sold as carcass beef is not too desirable. Therefore, what had been a price advantage slowly deteriorated to where they were receiving about $2 less than the Kansas-Texas-Oklahoma price. They got to the point that they could not live with it.

In the past two months they have negotiated a new contract. The contract is between Northwest Feeders and Iowa Beef. Again, it is a very straightforward contract. They have killed several million cattle through the plants in the past ten years. So they all have complete confidence in the honesty of Iowa Beef. Iowa Beef has agreed to report their exact total weekly operations at Amarillo and Garden City. These two plants kill 60,000 to 80,000 cattle per week. They kill nothing but the best feedlot cattle they can buy. At the end of the week they report all of the details for each plant. Then they consolidate the two together. The report shows the total number of cattle killed, the total number of cattle graded Choice, the total number of cattle graded No-roll. It shows the total number of yield grade 1, 2, 3, 4, 5. The total number of cattle weighing less than 550 pounds and the total number of cattle weighing over 900 pounds are also shown on this report. These lightweight and heavyweight carcasses along with all of the number 4's and 5's are sold out of the back door for whatever price IBP can realize.

The report shows the total pounds of cattle purchased, the total pounds of beef produced, and the actual cost per pound for the choice cattle of Yield Grade 3 or better.

The following is a simple illustration of how it works: Assume that the total cost per CWT of the cattle delivered to the two plants last week was $63.00/CWT. Assume that the average dressing percentage was 63%. That means that the flat cost of the beef produced would be $1.00 per pound. This assumption is based on total pounds. The report then shows that the discount for that week was $3.00 per CWT for a good grade, $15.00 per CWT for Yield Grade 4's, and $1.00 per CWT premium for 1's and 2's. This information then develops a computer menu as follows:

<table>
<thead>
<tr>
<th>Computer Menu</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Discount</td>
<td>$3.00</td>
</tr>
<tr>
<td>Yield Grade 4 Discount</td>
<td>$15.00</td>
</tr>
<tr>
<td>Yield Grade 1&amp;2 Premium</td>
<td>$1.00</td>
</tr>
</tbody>
</table>

100.00
.90
.75
(.50)

| Choice Y3 | 101.15 |
| Choice Y 1&2 | 102.15 |
| Good Y3 | 98.15 |
| Good Y 1&2 | 99.15 |
| Yield Grade 4 | 86.15 |

You will note that the price they would then receive for their Choice Yield Grade 3 cattle would be $101.15, their Choice Yield Grade 1's and 2's $102.15, their Good Grade Yield 3's
$98.15, their Good Yield 1 and 2's $99.15, and their Yield Grade 4 cattle $86.15. It is an excellent contract, especially when these plants are only single shift plants.

Because the week's figures must be produced before the price is established, the cattle have to be paid for on balance a week later than they are slaughtered. They operate under these strict rules. Every Tuesday morning they furnish IBP with Lot numbers, Pen numbers, and actual head counts plus estimated weight for the following two week's schedule. So IBP always has in front of them a full two week's killing schedule. Those committed cattle are actually slaughtered starting on the following Monday morning after the list is developed and runs through two weeks. With payment only once a week, it is obvious that some cattle would be a week late and some would be two weeks late. The way Agri-Beef handles that situation is to pay 90% of the estimated weight on the morning the cattle are weighed. The following Monday is always pay day because IBP has furnished the preceeding week's information to them. So Monday morning as the IBP menu is available, they make final settlement on each pen of cattle. Agribusiness is carrying the interest on the 90% payment for a week which is roughly $1.00 per head. To offset this cost they charge a sales commission of $1.00 per head for the extra accounting and interest cost.

Each Tuesday when the two week's list is furnished to IBP, they are also furnished a 75-day kill list in order to have positive plans. This 75-day list is constantly upgraded because some cattle come along faster than others. Sometimes they are moved ahead or behind. It is a broad plan with no deviation on the two-week list, and a positive commitment of slaughter on the 75 day (15 week) plan.

Years of experience has taught them that in order to have high numbers of #2 carcasses and literally no #4 carcasses, each log of cattle must be sorted one time. The very best genetic cattle, those with Angus blood having quicker maturity, need to be taken off 10-20 days before the balance of the pen is ready. They have proven with thousands of cattle that it does not pay to sort twice. There is no question in their experience that yield grade 4's are the biggest drain on profits.

Rich and Bob maintain an inventory of approximately 50,000 cattle on a reasonably constant basis. Simplot has three feedlots, and they will vary from 75,000-100,000, averaging around 90,000. Bob McGregor sold his feedlot. His employees are operating it as a custom lot. While it is not operating at nearly the volume that he used to operate, it is apparently getting a good start as a custom feedlot, and it is in the new arrangement. Bob Kemp is still the manager of the co-op.

Summarizing a few other points:

Rich positively states that he would not be in the feedlot business unless he had a contract to slaughter on a beef basis. He does not believe you can run a real tight feedlot unless you sell the cattle in the beef. First, this makes you buy better cattle. They must follow all results so they know who has the superior cattle and where the poor performers are also. They buy over 80% of their cattle direct in the country. When they find a good producer, they go back year after year. The premium for 1's and 2's is only possible in the beef. Their results show they are averaging between 50%-55% 1's and 2's, with only 3% #4's.

They relate everything to live cattle values by using two sets of information in their computers. As the steers are weighed, they shrink them the standard 4%. Using shrunken
weights, they establish a value using 63% dressing percentage of how many pounds of beef they will have. Then with the actual dressing percentage it is recalculated. Heifers are the same only a 62% yield. On the last 398,000 steers they have averaged 63.35%. These same 398,000 steers averaged 73% choice with less than 2% yield grade #4's. The heifer figures are similar.

They prefer to feed heavy heifers over steers, but they are not able to get the performance because ranchers generally keep their best performing heifers. As they sell the rejects, the poor genetics produce too many weighing under 550 pounds.

Their cattle are fed between 120-130 days. Their gain costs are in the low 50's. They believe that their packer contracts do more to attract customers than any other single thing. Customers know they have the best market possible, and always on the best day for the performance of their cattle.

They do some hedging -- no more than necessary to eliminate risk. Foster Lund has his office on the same floor in the same building. They do protect their grain with hedges. The cattle basis is difficult for them. They also feel that the basis information that almost everyone is using is off because the business is changing so rapidly. The yellow sheet, which forced their new contract, still drives the futures.
As the first quarter of 1985 draws to a close, it is obvious that Northern Colorado's cattle feeding industry is in jeopardy. Our area is receiving the lowest prices for fed cattle of any major area in the U.S. Unless this discrepancy can be corrected, cattle feeding will soon be history.

To develop a plan for the future, we must look back and see what has happened to take the number one cattle feeding area of the U.S. to the brink of losing an industry.

Modern cattle feeding was developed in Northern Colorado starting in the middle 1930's. The modern chain food stores were established at about the same time. However, both industries grew somewhat slowly until after World War II. This time period saw the development of the semi trailer truck, modern mechanical refrigeration and the advent of new packers to supply the needs of the rapidly growing chains.

The Denver market grew rapidly; Pepper, Litvak, Capitol and other packers took the business from Swift, Armour and Cudahy. With semi trucks, rail shipments were no longer necessary. The truck could back up to the chute of any ranch or feedlot. The terminal market was doomed because of new technology.

Warren Monfort realized that he could build a slaughter plant in Greeley and pay for it by saving the freight to Denver, plus the commission companies charge and the yardage charge assessed by the stockyards company. Iowa Beef Packers capitalized on the same idea. Build beef plants where the feedlot cattle were located. Several successful feeders in the Ft. Morgan-Sterling area formed a coop and built Sterling Beef Co. for the same reason.
These plants were the leaders; they gave us a favored position. Denver prices for live cattle were higher than the Missouri River or the Texas Panhandle.

However, today the newer plants are located in the Kansas, Texas, and Western Nebraska areas. These plants are larger, more efficient, and they all box their product as well as slaughter. Most of these plants double shift which further gives them a much better return on the fixed investment.

These new large double shift plants can slaughter and box beef cheaper than anyone else. Therefore the right kind of fed cattle are worth more close to these plants than anywhere else in the country. Therefore we at Farr Farms believe that the real price basing area for fed cattle in the foreseeable future lies in the Kansas-Texas panhandle area.

If Northern Colorado is to remain competitive in the cattle feeding business, we must improve our live cattle market to the same level as the Texas-Kansas market.

There are only two possibilities to improve our area. The first and most desirable would be for Monfort to double shift. The other alternative is for one of the majors, such as Iowa Beef or Excel, to buy the Sterling Plant. This is a big undertaking. It would be necessary to enlarge, modernize, build a boxing plant and double shift.

In assessing the area's strong points, we believe Colorado has a better climate month for month and year to year to feed cattle than does the Kansas-Texas area. We have slightly cheaper feed costs. We have higher quality feed. Our feed costs will continue on the low side with the loss of the beet sugar industry. Kansas-Texas feed costs will rise slowly because of the continued lowering of the water table in the Ogalalla aquifer.
Therefore, feed price advantage should always remain in northern Colorado's favor. As time goes on, pumping water from the Ogallalla will slowly be eliminated moving from south to north. Already large areas south of Amarillo have been forced to stop pumping. The Ogallalla aquifer is non-renewable so feed production is a mining operation which will eventually dry up.

Another advantage for Colorado is its location in relationship to the very best feeder cattle. The ranchers of Montana, Wyoming, North and South Dakota and Colorado have been forced to breed better cattle. The weather in these states is more severe, costs are higher, they must improve or get out of the cattle business. The medium and lower quality cattle are raised in the southern and southeastern part of the United States. Therefore we have first access to the uniform high quality kind of beef that fits the box.

The greatest weakness of the cattle industry is that prices are always based on averages. There is no premium for high quality, high yielding, high grading cattle. Cattle numbers are shrinking because the whole industry is being liquidated. It is imperative to the future of the cattle industry to save the high quality cattle and liquidate the low end of cattle that do not grade or fit the box.

If Farr Feeders were guaranteed Texas-Kansas prices for their finished cattle, then we could go to the ranch producer who has good cattle and urge him to feed his cattle in Colorado. Costs to the producer must be minimized. If the rancher moved his cattle directly from the ranch to the feedlot, that would save him the marketing cost of freight, commission, and auction barn costs. Cattle feeders eliminated those costs years ago when they left the central market. We would custom feed the cattle for the rancher, so that he would get all of the benefits of raising high yielding, high grading cattle. He would no longer be selling on averages.
If the rancher did not want to feed his own cattle, then Farr Feeders would buy those high quality feeders at a premium for some of their investment or tax customers. With the guarantee of the Kansas-Texas prices for live cattle on any given day, we feel certain we could keep the feedlot operating at eighty to ninety percent capacity. We would have control of a large share of our inventory because only those good cattle would fit our price guarantee from the packers.

Running a commercial feedlot means that you must accept any cattle a customer sends you. The feeder must feed them to the point of best return. That portion of the inventory which would not meet the specifications would not be included in either our guarantee to the owner to receive Texas-Kansas prices nor would they be shipped to our contracting packer. Those cattle would only enjoy the best local market available.

The Kansas-Texas price is quoted daily by Cattle Fax both live and dressed. We would suggest that an agreement be made with Cattle Fax paid for by Farr Feeders and the packer. Probably on an average price for the week. There would need to be both a live and dressed price. Some owners want one or the other. At times when cattle are muddy, the only fair way is the carcass basis. All prices for settlement would be based F.O.B. our feedlot.

We would be supplying good quality cattle fed to the proper weights. This would eliminate light or heavy carcasses. If they were included they would draw an agreed discount. Farr Feeders would guarantee steers and heifers to grade 70% Choice or better. We would guarantee steers to yield 63% hot and heifers 62.5% hot. These guarantees would be on a weekly basis - not on every shipment. Probably this kind of contract would require us to sort groups of cattle and market on a tighter schedule.
We believe that it will only be a relatively few years until all beef will be bought on hot weights. This move will eliminate buying expense for the packer plus a lot of accounting to control the buyers. Our proposal to be paid is as follows:

All cattle would be yield graded both choice and no roll.

All cattle grading Yield Grade #3 would be priced at Kansas-Texas Cattle Fax figure.

All cattle grading Yield Grade #2 would bring $2.00 per cwt premium.

All cattle grading Yield Grade #1 would bring $3.00 per cwt. premium.

All cattle grading Yield Grade #4 or #5 would be settled for at the plant's net for the week for these overfat cattle.

Cattle Fax and USDA both have weekly drop credits that would be used on a weekly average.

The advantage to the packer making this contract would be a positive way to guarantee supply with no investment. When the cattle are placed on feed, a computer projection is run and the packer would be advised weekly of new placements. As time progressed, this approximate date would be refined to a date of a certain week at the packer’s option. Our cattle manager would be in daily or weekly conversation with procurement, so there would be no slip-ups.

For those customers who want to sell on a live price, they would be guaranteed the Kansas-Texas market F.O.B. Farr Feeders feedlot limited by only the yield and quality grade guarantees. The feeder who truly has superior cattle will want to sell his cattle on the rail with the premiums outlined.

It is a case of survival for the industry. The rancher who must raise cattle can only do so if he has the very best. He must be paid for superior animals. The feeder cannot exist unless he can stabilize his feedlot overhead
and perform the best possible job at a reasonable price. The packer cannot exist unless he has constant supply of the kind of cattle that he builds his reputation on. For too long packers and feeders have included a few head of less desirable animals in order to cheapen the average. Competitive foods will no longer allow this. Beef is a luxury food and only the best will bring luxury prices. The rest of the beef will go to hamburger and sausage because cattle numbers are going to continue to decline.
I will briefly relate to you the story of cattle feeding as I have seen it and have been part of it for the past fifty-five years.

Cattle feeding originated in the eastern corn belt about the turn of the century. The industry has slowly moved westward. As our country was developing from the eastern coast to the midwest, the great railroad system developed with Chicago as the hub.

The tremendous Chicago stockyards enhanced by the big four packers, Swift, Armour, Wilson and Cudahy, made Chicago the capital of the livestock world. The daily decisions on the prices of dressed beef, lamb, and pork: plus the live prices to be paid each day on every market were all made in Chicago. Most of the people of the United States lived east of Chicago. Most of the food of the country was produced west of Chicago, so it was the natural center of commerce.

I am sure that it is difficult for most of you to realize how much different the livestock industry was when it depended entirely on rail transportation. There were many fine railroads running from east to west, but not very many or very good connecting roads north and south.

Rail transportation built the central market system which consisted of large stockyards, packing houses, commission men, order buyers and speculators. Those markets intercepted the
LIVESTOCK AS IT MOVED FROM WEST TO EAST. STARTING WITH CHICAGO AS THE BIGGEST AND BEST BECAUSE IT WAS FURTHEST EAST: THEN MOVING TO THE MISSOURI RIVER MARKETS, SIOUX CITY, OMAHA, ST. JOE, AND KANSAS CITY. ST. PAUL WAS NORTH AND SERVED THE NORTHERN TIER OF STATES. DENVER WAS THE FURTHEST WEST. ITS MAIN CLAIM TO FAME WAS THE FEEDER MARKET IN THE FALL WHEN THE HIGH ALTITUDE FEEDERS CAME TO MARKET.

CATTLE FEEDING WAS BASICALLY CONFINED TO THE CORN BELT STATES FOR TWO REASONS. THE RAIL TRANSPORTATION RATES WERE ALL BASED ON A WEST TO EAST MOVEMENT. THE SECOND REASON WAS THE FACT THAT CORN WAS ALMOST THE ONLY CROP RAISED. SOYBEANS WERE A NEW CROP. THERE WAS LITTLE EXPORT MARKET, SO LIVESTOCK WAS THE ONLY MEANS OF TURNING THE CROP INTO CASH.

THESE CORN BELT CATTLE FEEDERS WERE NOT REALLY CATTLE FEEDERS. THEY ONLY BOUGHT CATTLE TO USE THEIR OWN CORN CROP. THE CORN WAS FED WHOLE AND HOGS FOLLOWED THE CATTLE. HOGS WERE BASIC AND RAISED ON THE FARM SO THE CORN FIRST WENT TO THE HOGS AND THE SURPLUS WAS FED TO THE CATTLE. WHEN A CORN BELT FEEDER PURCHASED CATTLE, HE FED THEM UNTIL HE RAN OUT OF CORN. MAYBE THE ANIMALS WEIGHED 900 POUNDS OR MAYBE 1900 POUNDS.

WITH THIS SYSTEM ONLY ABOUT ONE FOURTH OR LESS OF THE CATTLE SLAUGHTERED WERE FED CATTLE. THE BALANCE WERE PARTIALLY FATTENED OR STRAIGHT GRASS CATTLE. THESE GROUPS WERE ALL CLASSIFIED TOGETHER AS BUTCHER CATTLE. THE AVERAGE AGE OF CATTLE SLAUGHTERED WAS ALMOST 48 MONTHS COMPARED TO TODAY'S 25 MONTHS.

IT WAS WITH THIS BACKGROUND THAT WARREN MONFORT, BERT AVERY AND I SAT ON THE STOCKYARD'S FENCE, AT LUCERNE, COLORADO, WAITING FOR THE SWITCH ENGINE TO COME TO LOAD OUR PARTIALLY FATTENED
CATTLE FOR THE DENVER MARKET IN THE SPRING MONTHS. WE HAD OBSERVED THAT USUALLY EVERYONE BOUGHT FEEDERS IN THE FALL, SO THE MARKET ON FEEDERS WAS ALWAYS HIGH. THE LARGE NUMBERS OF SLAUGHTER CATTLE SOLD IN THE SPRING USUALLY LOWERED THE MARKET; THEREFORE CATTLE FEEDING PROFITS WERE MINIMAL. AS SOON AS THE HEAVY SPRING SUPPLY WOULD DECREASE FED CATTLE MARKETS WOULD MOVE UP AND STAY HIGHER UNTIL THE FOLLOWING JANUARY.

WE DECIDED THAT WE COULD FEED CATTLE TO A PROPER UNIFORM FINISH AND WE COULD ALSO FEED FOR THE PROFITABLE TIMES OF YEAR. THAT WAS A BOLD DECISION. WE HAD TO GO TO NEBRASKA AND SHIP CORN WEST. WE WOULD NEED TO GO TO TEXAS AND SHIP CATTLE NORTH. THIS WAS NOT THE NORMAL MOVEMENT. THE FREIGHT RATES WERE AGAINST US. WE BELIEVED THAT OUR BETTER WEATHER AND THE SURENESS OF OUR IRRIGATED CROPS WOULD OFFSET THE ADDED FREIGHT. MOST EVERYONE THOUGHT THE IDEA WOULDN'T WORK. COLORADO AGGIES SET UP EXPERIMENTS TO PROVE THAT OUR AREA COULD ONLY USE OUR CROP BY-PRODUCTS, SUCH AS WET BEET PULP. THE UNIVERSITY BELIEVED THAT YOU HAD TO SHIP THE CATTLE TO THE CORN, NOT THE CORN TO THE CATTLE.

THIS ALL STARTED IN THE EARLY 1930'S. FARMING STILL USED HORSES. OUR CATTLE WERE FED WITH TEAMS AND WAGONS PLUS MEN WITH SCOOP SHOVELS. THE FEED BUNKS WERE BUILT FROM PLANKS TWELVE FEET LONG AND FOUR FEET WIDE BUTTED END TO END SOMEWHERE NEAR THE CENTER OF THE PEN. AS FARM TRUCKS DEVELOPED WE FOUND THAT THEY COULD NOT OPERATE IN MUDDY PENS. THEY WOULD SLIDE INTO THE BUNKS OR GET STUCK. THAT SIMPLE PROBLEM IS WHY YOU HAVE BUNK LINE FEEDING
TODAY. TRYING TO BUILD THOSE FIRST OUTSIDE BUNKS WITH NOTHING BUT LUMBER TO WORK WITH BECAME A MAJOR CHALLENGE. FOR EXAMPLE: DO YOU PUT A WOODEN FLOOR FOUR OR SIX INCHES OFF THE GROUND? THIS MADE A FINE BUNK, BUT IT ALSO MADE A GREAT RAT-BREEDING LOCATION. SO THOSE BUNKS HAD TO BE TORN OUT AND REBUILT. HOW WIDE SHOULD THE OUTSIDE BUNK BE? HOW MUCH SLOPE ON THE OUTSIDE WALL? HOW HIGH SHOULD THE BUNK BE SO CATTLE DON'T WASTE FEED?

I HAVE ELABORATED ON THIS ONE PROBLEM TO ILLUSTRATE THE PIONEERING THAT THE THREE OF US UNDERTOOK IN DEVELOPING CATTLE FEEDLOTS. THERE WERE NO VETERINARIANS TRAINED IN LARGE ANIMAL WORK. DR. DON MACKEY WAS THE FIRST GRADUATE OF C.S.U. TRAINED FOR FEEDLOT CATTLE. HE TOOK OVER THE THREE FEEDLOTS THE DAY HE GRADUATED. WE HAD NO VACCINES OR ANTIBIOTICS, ONLY SIMPLE TREATMENTS. FOR EXAMPLE, WE BUILT A SMALL PEN SIX BY EIGHT FEET WITH A CONCRETE BOTTOM AND WALLS A FOOT HIGH. WE FILLED THIS WITH A SATURATED SOLUTION OF POTASSIUM PERMANGANATE. WHEN A STEER HAD FOOTROT, HE STOOD IN THIS FOOTBATH FOR AN HOUR.

DURING THIS SAME TIME FRAME, CALIFORNIA STARTED FEEDING LOTS OF CATTLE. THEIR POPULATION HAD GROWN. THEIR WINTER GRASS IN NORTHERN CALIFORNIA PRODUCED A GOOD SUPPLY OF FEEDERS IN THE SPRING. THIS COMPLIMEN TED A SUPPLY OF MANY BY-PRODUCTS FROM THEIR FARMING. THEY FED EVERYTHING FROM WALNUT AND ALMOND HULLS TO REJECTED BROCCOLI AND BRUSSELS SPOURTS. THE HOWARD BROWN LOT AT SANTA MARIA FED WET BEET PULP WITH A DONKEY ENGINE PULLING SMALL FLAT CARS FEEDING BUNKS ON BOTH SIDES WITH THE TRACK IN THE MIDDLE. I WENT TO CALIFORNIA TO SEE THESE OPERATIONS TO GET NEW IDEAS.
BY THE LATE THIRTIES AND EARLY FORTIES WE HAD PROVED THAT WE COULD FEED CATTLE ON A YEAR-AROUND BASIS. WE MADE MONEY FEEDING CATTLE. NO THOUGHT WAS GIVEN TO CUSTOM FEEDING. WE TOOK THE ATTITUDE THAT IF WE BOUGHT AND SOLD SEVERAL TIMES A YEAR WE WOULD BE NO DIFFERENT THAN ANY MANUFACTURING COMPANY. WE THOUGHT OF OURSELVES AS MANUFACTURING BEEF.

THE WORLD WAR II YEARS SLOWED PROGRESS, BUT THE NEED FOR MEAT WAS GREAT. WE HAD PRICE CEILINGS ON FEEDER CATTLE, FAT CATTLE AND GRAIN. PROFITS WERE SMALL BUT DEPENDABLE.

CHAIN FOOD STORES HAD STARTED TO SLOWLY SPREAD OVER THE UNITED STATES JUST BEFORE THE WAR. THEY BOUGHT BEEF BY THE CAR-LOAD, AND WITH RIGID SPECIFICATIONS. THE BIG PACKERS DID NOT LIKE THE CHAIN STORE GROWTH. THEY HAD ALWAYS BEEN Able TO SUPPLY THE SMALL STORES WITH THEIR BRAND OF BEEF QUALITY. SWIFT'S PREMIUM, ARMOUR'S STAR, WILSON'S CERTIFIED WERE NOT UNIFORM GRADES OF BEEF. THE BRAND NAME WAS ONLY THE BEST BEEF THAT CAME THROUGH THE PLANT THAT DAY. TOMORROW IT WAS A DIFFERENT PRODUCT. YOU CAN WELL REALIZE WHY THEY DIDN'T LIKE THE SPECIFICATIONS OF THE CHAINS.

BEEF GRADING WAS STARTED IN 1927; HOWEVER IT HAD NEVER AMOUNTED TO ANYTHING BECAUSE THE BIG PACKERS DIDN'T WANT IT. PRICE CONTROL BROUGHT MANDATORY GRADING. WHEN THE WAR WAS OVER THE PRODUCERS REALIZED THAT BEEF GRADING WAS IMPORTANT. THE OLD AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION HELD A THREE DAY BEEF GRADING MEETING IN CHICAGO IN 1950 WITH THE IDEA OF IMPROVING AND DEVELOPING WORKABLE BEEF GRADING STANDARDS. THE CHAINS WERE INCREASING AND IT WAS OBVIOUS THAT THEY HAD TO HAVE STANDARDS TO WORK FROM. THE U.S. MILITARY WAS A BIG BUYER, AND THEY ALSO HAD TO HAVE STANDARDS.

I ATTENDED THAT MEETING AS ONE OF SEVERAL A.N.C.A. REPRESENTATIVES. THE CORN BELT CATTLE FEEDERS WERE ALSO IN ATTENDANCE. BELIEVE IT OR NOT, THEIR PROPOSAL WAS THAT FOR BEEF TO GRADE PRIME IT SHOULD BE GRADED WHEN THE STEERS WERE ALIVE. THE PROPOSED STANDARD FOR PRIME GRADE WAS THAT YOU COULD PUT A BUSHEL OF CORN ON THE STEER'S BACK. FORTUNATELY, THEY DID NOT PREVAIL. WE ESTABLISHED GOOD BEEF GRADING STANDARDS FOR THAT POINT IN TIME. IT WAS THIS ACCEPTANCE OF GOVERNMENT BEEF GRADING IN LATE 1950 THAT SET THE STAGE FOR INTELLIGENT CATTLE FEEDING TO PRODUCE A STANDARD PRODUCT: THE BEEF GRADES ADOPTED IN 1950 WERE THE FOUNDATION TO BUILD THE SPECIALIZED BEEF SLAUGHTER PLANTS AND CATTLE FEEDING IN THE GREAT PLAINS AREA. WITHOUT GOVERNMENT GRADING OF BEEF, TODAY'S CATTLE FEEDING INDUSTRY COULD NOT EXIST.

TWO OTHER GREAT THINGS HAPPENED TO THE CATTLE INDUSTRY BECAUSE OF WORLD WAR II TECHNOLOGY. THE SEMI TRUCK MADE IT POSSIBLE TO BACK UP TO A CHUTE GATE ON ANY RANCH, FARM OR FEEDLOT AND MOVE
CATTLE NORTH, SOUTH, EAST AND WEST. THE RAILROADS AND THE CENTRAL MARKETS WERE NO LONGER NEEDED. THE SECOND INVENTION THAT HAS REVOLUTIONIZED AGRICULTURE WAS THE HYDRAULIC PUMP. NOW WE HAD POWER THAT WOULD OPEN AND CLOSE VALVES, LIFT UNBELIEVABLE AMOUNTS OF WEIGHT ON FRONT-END LOADERS PLUS HUNDREDS OF OTHER USES. I AM SURE IF YOU ANALYZE YOUR FEEDLOT OPERATION THAT YOU WILL REALIZE THAT THE SINGLE MOST IMPORTANT SOURCE OF POWER IS THAT HYDRAULIC PUMP.

WARREN MONFORT HAD A GREAT MECHANIC. HIS NAME WAS LOWELL ADAMS. FARR FARMS HAD A GREAT MECHANIC. HIS NAME WAS LAWRENCE HURT. THESE TWO MEN WERE BOTH NATURAL MECHANICS; NEITHER MAN EVER GRADUATED FROM HIGH SCHOOL. WE BOTH BOUGHT WELDING EQUIPMENT AND TRAINED THE MEN HOW TO WELD WHEN ELECTRIC WELDING MACHINES WERE FIRST DEVELOPED. WARREN AND I DREAMED OF THE KIND OF MACHINERY WE NEEDED TO OPERATE FEEDLOTS. WE COULD DRAW PICTURES AND COUNCIL WITH OUR MECHANICS. THEY WOULD CUT AND PIECE, TRY AND FAIL, TRY AGAIN. FINALLY WE BUILT FEED TRUCKS, SILAGE LOADERS, MANURE LOADERS, AND ALL KINDS OF EQUIPMENT IN OUR SHOPS. WE NEVER BUILT ANYTHING FOR ANY OTHER USER, BUT WE GLADLY GAVE OUR IDEAS TO ALL. THE HARSH FEED TRUCKS THAT YOU USE TODAY WERE DESIGNED IN OUR SHOPS. MR. HARSH WAS A SUBMARINE NAVY MAN WHO HAD LEARNED THE GREAT VERSATILITY OF THE HYDRAULIC PUMP. HE HELPED US. WE HELPED HIM.

AFTER THE WAR THE BEEF BUSINESS GREW RAPIDLY. THE NEW PACKERS MADE MORE COMPETITION. WE HAD GOVERNMENT BEEF GRADING WHICH PRODUCED UNIFORM BEEF WHICH THE PUBLIC LIKED. THE CHAIN STORE MOVEMENT GREW RAPIDLY. THESE BIG STORES FEATURED BEEF AS THE MCST
IMPORTANT ITEM IN THEIR FOOD STORE. BEEF ENJOYED MORE ADVERTISING, MORE FEET OF COUNTER SPACE THAN ANY OTHER PRODUCT. OUR U.S. POPULATION, PARTICULARLY THE WORKERS, ENJOYED RISING INCOMES AND MORE PRODUCTIVITY EVERY YEAR. INFLATION WAS MILD; CONSEQUENTLY THESE WORKERS HAD DISCRETIONARY INCOME OVER AND ABOVE THEIR MONTHLY PAYMENTS. THEIR STANDARD OF LIVING GREW RAPIDLY. THEY DEMANDED MORE MEAT, MILK AND EGGS.

EVERY YEAR THE CATTLE POPULATION INCREASED. CATTLE FEEDERS FED MORE AND MORE CATTLE UNTIL BUTCHER CATTLE WERE VIRTUALLY ELIMINATED. THE ECONOMICS OF AN EVERY INCREASING SUPPLY AND AN EVER INCREASING PRICE WAS CONTRARY TO THE LAWS OF ECONOMICS. THOSE WERE GREAT YEARS FOR THE CATTLE INDUSTRY.

I HAVE NOT MENTIONED THE INTERIOR PACKERS, SUCH AS RATH AND MORRELL. THESE PACKERS BUILT THEIR PLANTS IN THE HEART OF THE CORNBELT IN THE 1930'S TO BE CLOSER TO HOG PRODUCTION. LATER THEY ADDED CATTLE. THEY DEPENDED ON BOTH RAIL AND TRUCK TRANSPORTATION, BUT THEY SIDE-STEPPED THE EXTRA COST OF THE CENTRAL MARKET SYSTEM. THESE PACKERS WERE GREAT BENEFAC'TORS OF THE CHAIN STORE GROWTH AFTER WORLD WAR II. THEIR SUCCESS SET THE PATTERN FOR IOWA BEEF PACKERS TO BUILD SPECIALIZED PLANTS FOR BEEF WHERE THE CATTLE WERE FED.

HYBRID CORN AND HYBRID MILO SEED ALSO HAD A TREMENDOUS IMPACT AFTER THE WAR YEARS. MILO HAD BEEN GROWN IN THE PLAINS AREA PARTIALLY AS A GRAIN AND PARTIALLY AS A WINTERING FEED. I WELL REMEMBER MANY BUYING TRIPS TO AMARILLO. WE WOULD LOOK AT CATTLE ON WHEAT PASTURE OR YEARLINGS ON GRASS, BUT THE OWNER ALWAYS POINTED
OUT HOW MANY BUNDLES OF MILO HE HAD IN CASE BAD WEATHER CAME ALONG. I ALSO REMEMBER SEVERAL MEETINGS AT TEXAS A & M UNIVERSITY, WHERE D. D. BUTLER KEPT TELLING THE RANCHERS THAT SOMEDAY THEY SHOULD FEED THE CATTLE IN TEXAS AND NOT SHIP THEM TO COLORADO.

BECAUSE OF OUR CLIMATE WE COULD NOT GROW OPEN POLLINATED CORN IN NORTHERN COLORADO. IN THE EARLY YEARS OUR CORN WAS ALL SHIPPED IN FROM ELEVATORS BETWEEN GRAND ISLAND AND OMAHA, NEBRASKA. TODAY ON OUR GOOD FARMS IN COLORADO WE CAN RAISE TWO HUNDRED BUSHELS OF CORN TO THE ACRE. IN FACT, CORN IS GROWN ON MORE ACRES IN COLORADO THAN ANY OTHER CROP. YUMA COUNTY, COLORADO, PRODUCES MORE TOTAL BUSHELS OF CORN THAN ANY OTHER COUNTY IN THE UNITED STATES.

THE GREAT IMPETUS TO CATTLE FEEDING IN THE HIGH PLAINS AREA WAS THE DEVELOPMENT OF THE OGAALALLA ACQUIFER USING CENTER PIVOT SPRINKLER SYSTEMS.

THE POTENTIAL FOR CATTLE FEEDING IN THE HIGH PLAINS HAD ALWAYS EXISTED BECAUSE THERE WERE MORE FEEDER CATTLE PRODUCED THAN IN ANY OTHER AREA IN THE UNITED STATES. GRAIN PRODUCTION PLUS SEMI TRUCKS AND GOVERNMENT BEEF GRADING CHANGED THE ENTIRE CATTLE INDUSTRY. THE BEEF PACKERS BUILT LARGE BEEF SLAUGHTER PLANTS AND MINIMIZED DISTRIBUTION COSTS. THE COMBINATION OF WHEAT FARMERS WHO WERE ABLE AND WILLING TO FEED CATTLE PLUS LARGE RANCHERS WHO WANTED TO FEED CATTLE MADE COMMERCIAL CATTLE FEEDING ATTRACTIVE. THIS WAS A NEW DEVELOPMENT IN THE CATTLE INDUSTRY, COMMERCIAL CATTLE FEEDING CAME OF AGE.
THIS NEW COMMERCIAL CATTLE FEEDING AREA WAS LOCATED AWAY FROM THE CENTRAL MARKET SYSTEM. THE INDUSTRY WAS BUILT BY NEW PEOPLE, BOTH THE FEEDLOTS AND THE SLAUGHTER PLANTS. THESE NEW LARGE FEEDLOTS AND SLAUGHTER PLANTS IN A RELATIVELY CONCENTRATED AREA WITH MOST OF THE CATTLE CUSTOM FED, DEVELOPED THE NEED FOR CATTLE FUTURES. TODAY THE PAPER MARKET IS A DEFINITE PART OF THE CATTLE FEEDING INDUSTRY.

WE HAVE QUICKLY REVIEWED THE CATTLE FEEDING INDUSTRY OF THE PAST FIFTY YEARS. IT IS VERY EVIDENT THAT THE INDUSTRY HAS CHANGED DRAMATICALLY. IT IS STILL A CHANGING INDUSTRY, AND IT MUST CHANGE FOR THE BETTER OR WE WILL GRADUALLY SEE CATTLE AND BEEF DISAPPEAR MUCH THE SAME AS THE SHEEP AND WOOL INDUSTRY HAS.

THE WESTERN HIGH PLAINS AREA IS NOW FEEDING ALMOST HALF THE CATTLE FED. AS TOTAL BEEF CONSUMPTION GOES DOWN THIS AREA WILL FEED A HIGHER PERCENT OF THE CATTLE BECAUSE THIS IS THE AREA OF THE UNITED STATES WHERE EVERYTHING IS IN PLACE TO FEED CATTLE MORE EFFICIENTLY THAN IN ANY OTHER AREA.

THE UNITED STATES NO LONGER IS AN EVER-EXPANDING MARKET FOR BEEF. OUR CONSUMERS DO NOT HAVE THE DISCRETIONARY INCOME THEY ONCE HAD. OUR CUSTOMERS ARE CHANGING THEIR LIFE STYLES AND THEIR EATING HABITS. IT IS OUR RESPONSIBILITY AS CATTLE FEEDERS TO PRODUCE THE FINEST BEEF POSSIBLE AT THE LOWEST PRICE POSSIBLE IN ORDER TO COMPETE WITH OTHER MEAT PROTEIN.

THE CATTLE INDUSTRY HAS GROWN AND CHANGED WITH OUR COUNTRY'S NEEDS FOR THE PAST HUNDRED YEARS. IT HAS ALWAYS BEEN AN UNREGULATED, UNDISCIPLINED INDUSTRY OPERATING IN FIFTY STATES, DEPENDENT ENTIRELY ON THE LAW OF AVERAGES. THAT IS THE GREAT WEAKNESS, THE
ACHILLES HEEL OF THE BEEF INDUSTRY. I DO NOT BELIEVE ANY INDUSTRY OR BUSINESS CAN EXIST FOR LONG IN TODAY'S HIGHLY COMPETITIVE SOCIETY THAT ONLY HAS AVERAGE PRODUCTS.

THERE ARE THREE AREAS THAT MUST BE CHANGED BEFORE THE CATTLE INDUSTRY CAN GET RID OF AVERAGES. FIRST AND MOST IMPORTANT, IS TO YIELD GRADE ALL FED CATTLE CARCASSES. AS LONG AS WE ONLY ROLL AND YIELD GRADE 70% TO 80% OF THE BEEF, WE ALLOW THE AVERAGES TO CONTINUE. IF ALL FED CATTLE WERE YIELD GRADED, THEN A PREMIUM FOR YIELD GRADE ONES AND TWOS COULD BE ESTABLISHED. WITH THAT TOOL CATTLE FEEDERS WOULD SOON START TO PRODUCE MORE ONES AND TWOS WITH LESS FOURS.

IF EVERY CARCASS WAS IDENTIFIED WITH ITS' TRUE WORTH, THEN RANCHERS COULD AND WOULD BREED SUPERIOR CATTLE, THAT WOULD GAIN MORE RAPIDLY, Finish AT PROPER WEIGHTS AND WITH THE BEST OVERALL VALUE.

MOST RANCHERS ARE FRUSTRATED BECAUSE THERE ARE SO MANY SIGNALS THAT THEY DO NOT KNOW HOW TO BREED SUPERIOR CATTLE. AS THE INDUSTRY MOVES FORWARD IT IS OBVIOUS THAT ALL CATTLE MUST FIT THE BOX. IT IS ALSO OBVIOUS THAT THE SAME ANIMALS NEED TO GRADE CHOICE OR HIGH GOOD. INDIVIDUAL YIELD GRADE WILL ASSURE MAXIMUM VALUE RATHER THAN A DISCOUNT ON THIRTY PERCENT OF THE PRODUCTION.

THE LAST PART OF THIS IMPROVEMENT WOULD BE IN THE CATTLE FEEDERS HANDS. IF HE IS RECEIVING A PREMIUM FOR CERTAIN KINDS OF CATTLE THEN HE MUST PAY THE RANCHERS A PREMIUM FOR THESE SUPERIOR ANIMALS. UNTIL THE FEEDERS DO THIS, WE CANNOT BASICALLY IMPROVE THE RETURNS
TO THE RANCHER. CATTLE PRODUCERS ARE SLOWLY BEING FORCED OUT OF BUSINESS. THERE ONLY CHANCE OF SURVIVAL IS TO PRODUCE SUPERIOR CATTLE THAT WILL GAIN FASTER AND CHEAPER, AND SELL FOR A HIGHER PRICE BECAUSE THEIR CUTOUT VALUE IS HIGHER.

I HAVE TRACED THE HISTORY OF CATTLE FEEDING DURING THIS CENTURY. OUR CATTLE INDUSTRY IS SLOWLY LIQUIDATING AND PRODUCERS ARE BEING FORCED OUT OF PRODUCTION BECAUSE OF THE ECONOMICS OF AVERAGES. WHEN CATTLE WERE FED BY THOUSANDS OF CATTLE FEEDERS IN HALF THE STATES OF THE NATION, THERE WAS LITTLE WAY TO IMPROVE THE INDUSTRY. TODAY, LITERALLY HALF OF THE CATTLE FED IN THIS COUNTRY ARE IN THE HIGH PLAINS AREA. IN ANOTHER VERY FEW YEARS IT WILL BE A HIGHER PERCENT. YOU ARE THE LEADERS -- IF YOU WANT TO CONTINUE TO FEED CATTLE FOR THE NEXT CENTURY. YOU MUST HELP DEVELOP SUPERIOR CATTLE BY PAYING A PREMIUM FOR THEM. YOU MUST SELL THEM FOR A PREMIUM. YIELD GRADE TWOS ARE WORTH AT LEAST THREE DOLLARS PER CWT MORE THAN THREES BECAUSE OF THE CUTOUT VALUE. YOU CAN RECEIVE THIS VALUE IF YOU PRODUCE ENOUGH OF THEM. THESE PRICE ADVANTAGES CANNOT BE REALIZED AS LONG AS THE INDUSTRY WORKS WITH AVERAGES.

YOU HAVE THE FUTURE IN YOUR HANDS.