Trends and Issues for Kentucky and the U.S. Beef Industry

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The current production chain of beef in the United States ranges from the basic genetic or seedstock supplier through cow-calf producers, backgrounders, feeders, packers, retailers and eventually to the consumer. A major failure has occurred in this production chain. The links operate in an adversarial manner, thus signals from the consumer are not shared freely up and down the production chain. This has resulted in the industry as a whole failing to address consumer concerns and produce a product meeting consumer expectations. Ramifications of this failure continue to affect Kentucky and the U.S. beef industry.

The Kentucky Beef Industry

Beef cattle remain the major livestock enterprise in Kentucky. The production of feeder calves from brood cows is the major segment of the industry for the state (Table 1) but production of yearling feeders is also important.

Table 1. Beef Cattle In Kentucky

Year	Cows, million	Yearlings, thousand
1980	1.106	451
1985	1.038	430
1990	1.04	425
1995	1.165	547
1998	1.140	435
USDA		

Beef cattle in Kentucky have followed the same trend as the US. Numbers have cycled up and down as the market has dictated. Yearlings particularly have been sensitive to the market signals.

The number of beef herds in Kentucky has been in a slow decline. Currently, USDA estimates there are 44,000 farms in the state with beef cattle. A profile of the cow herd size and who is controlling it is shown in Table 2. The vast majority of farms with beef cows (86.4%) have small herds, averaging only 15.9 cows per farm. These herds control 53% of all the beef cows in the state. The remaining herds (approximately 6,000) control 47% of all the cows and have an average herd size of 89.3 head. Smaller producers are tending to drop out of business and the number of larger herds is slowly increasing over time.

Table 2. Beef Cows, Inventory and Farms in Kentucky

Herd Size Group	% of Farm Totals	% of Cattle Total
1 to 49	86.4	53
50 to 99	10.0	25
100 to 499	3.5	20.5
500 +	.1	1.5
USDA		

Issues Facing the U.S. Beef Industry

Beef producers in the United States have become too productive for their own good. As shown in Table 3, pounds of beef produced per cow have increased greatly since 1980 while cow numbers have decreased. With continual increases in herd productivity, fewer cows will be needed to produce the same amount of or even more beef.

Table 3. Beef Production Per Cow in the United States

Year	Cows, million	Pounds per Cow
1980	47.8	449
1985	46.1	510
1990	42.4	533
1995	44.6	569
1998	42.8	586
USDA		

At the same time as productivity per animal is increasing, per capita consumption of beef is decreasing on a retail weight basis (Table 4). From a peak in 1985, projected figures for 1998 show a drop of 14.5%. At the same time, per capita consumption of both chicken and total poultry continue to climb steadily on a retail weight basis. Since 1985, retail weight consumption of chicken has increased by 36% and total poultry has increased by 41%. This change in consumption is reflected by changes in consumer expenditures for meat.

Table 4. Per Capita Consumption, Retail Weight, Pounds

Year	Beef	Chicken	Total Poultry
1980	76.6	48.7	58.9
1985	79.2	54.0	65.6
1990	67.8	62.8	80.3
1995	67.5	69.8	88.2
1998	67.7	74.4	92.5
USDA			

As shown in Table 5, consumer expenditures for chicken have more than doubled since 1980. Consumers continue to spend more dollars on beef but the amount per capita is beginning to decrease. More importantly, dollars spent on beef as a percentage of the total meat dollar spent, has steadily decreased since 1980. Consumers spent only 45% of the meat dollar on beef in 1997.

Table 5. Per Capita Expenditures for Meat, Dollars

Year	Beef	Chicken	Beef, % of Total Meat Dollars
1980	179	48	58.4
1985	180	66	54.7
1990	190	103	47.8
1995	194	117	46.7
1997	186	110	45.6
USDA			

Beef has lost market share due to a decreasing consumer demand. How does this affect the beef industry nationally and in Kentucky? The NCBA estimates that the decrease in per capita consumption equals **12.84 billion dollars annually in lost revenue to the industry.** Each dollar of cattle sales equals 4 dollars of total economic activity with much of that remaining in the rural community. The impact of decreased beef consumption is staggering. A well known and respected consultant, Bill Helming, has predicted that if the trend is not halted, the number of cow-calf operations in the U.S. by 2010 will be decreased by 40% compared to 1970. This means fewer purchasers of services from veterinarians, feed dealers and farm service suppliers.

Solving the Problem

What has caused the lost of market share and what can be done to change and/or reverse this trend? Consumer surveys have consistently shown that the major factors affecting the purchase of beef are: 1. Price/Value, 2. Eating Quality and 3. Consistency of Product. The issue of price does not reflect that consumers think beef is too expensive but that they are not receiving adequate product value for the product cost. Indeed, surveys show that consumers are willing to pay more than present costs if the product delivers high eating quality each time. Too often, consumers have a bad eating experience with the beef they now purchase.

The existing marketing system is partly to blame for this. The system operates in an adversarial manner with little communication between each link in the chain. Consumer desires are not communicated up and down the production chain and at present, there is little way to obtain or share in the added value of a truly better product. This can and must change. With our present knowledge, we can make significant changes in the eating quality of beef. The question is how to obtain a better price and share the added value of this improved beef across the production chain?

Beef producers must learn about marketing from the poultry industry. We can adopt the best parts of their system without losing the individual management control we desire. Smaller cattlemen must join in alliances that will help them produce a product the consumer wants and market in a manner that they can share in the added value. The cattle industry needs a vertically coordinated system with multiple owners operating under common guidelines. A coordinated system can not only increase value but it may also result in reduced production expenses. Coordinated systems should include local representatives of marketing, animal health, feed and other farm services. Vertically coordinated systems can help solve the major issues facing the beef industry but to do so will require a change in mind set for all involved. The beef cattle industry cannot continue to do business in the same old manner and continue to thrive.