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### Where the Consumer's Beef Dollar Goes

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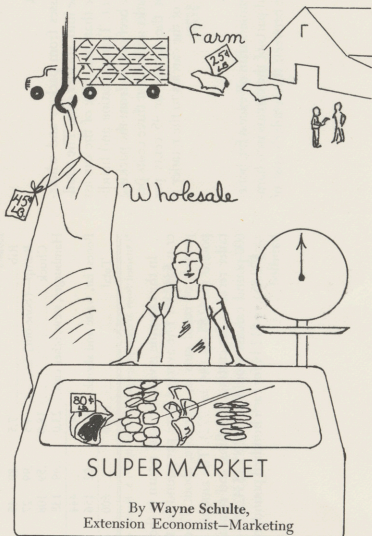
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# Where the Consumer's Beef Dollar Goes



By Wayne Schulte,  
Extension Economist—Marketing

# Where the Consumer's Beef Dollar Goes

Consumers often believe the prices they pay for beef are high in relation to the farmer's returns. Farmers often believe the prices they receive are low in relation to prices of meat at retail. Why is there such a wide difference in the price per pound of a live animal at the farm and for the retail cuts from that animal? Since the price of beef animals fluctuates rapidly and since prices are constantly changing, it is impossible to stop the price-making process to examine how it functions at a particular time. In order to better understand the relationship of farm and retail beef prices, a 1,000 pound Choice steer will be followed through the marketing system based on average yields, prices and "cutout."

## FARM TO WHOLESALE

Although various price levels could be selected for the live animal, a price reflecting Choice grade steers at major markets during recent years would be most realistic. Therefore, a market price of 25 cents per pound will be assumed. The gross return to the producer or feeder would be \$250 (25¢ x 1000 lb. = \$250), although the net amount would be slightly less depending upon the transportation costs and marketing charges involved. Processing and handling costs are charged to the value of the carcass but the return from by-products (hide, tallow, tankage and other products) usually cover all or most of the packer's processing costs. To compute the carcass value per pound, the live weight price per pound is divided by the dressing percentage. Studies indicate that the average dressing percentage for Choice grade cattle varies from 57-63%. Using a dressing percentage of 60% would make the carcass value nearly 42 cents per pound for 600 pounds (25¢ ÷ .60 = .416). Allowing a slight additional charge for slaughtering and handling costs, the value would be 42 cents per pound at the slaughtering plant.

## WHOLESALE TO RETAIL

Retailers buy carcasses from packers and wholesalers which they divide into smaller cuts. The retailer, however, pays more than the value of the carcass at the slaughtering plant. Transportation and handling charges to move the beef carcass from the packing plant to the retailer's outlet adds about three cents per pound to the value of the carcass or 45 cents per pound. The total value of the carcass to the retailer is \$270 (45¢ x 600 lbs. = \$270).

## RETAIL TO CONSUMER

In handling beef, retailers trim off excess fat, bone-out some cuts and grind parts of the carcass into hamburger. The difference between the retailer's cost of

the carcass and the value of the retail cuts covers these services as well as allowing for losses in weight of the product due to cutting, trimming and boning, and shrinkage. For Choice grade steers this amounts to about 26% of the carcass according to retail cut yields encountered in 600-pound Choice grade carcasses furnished by a large number of retailers throughout the United States. (Cutting losses for Choice heifers average nearly 30%.) Therefore, the retailer has 444 pounds of meat to sell (600 x 74% = 444) from the original 1,000-pound steer. From the example given thus far, the retailer would have to receive nearly 61 cents per pound (\$270 ÷ 444 = \$.608) for the amount of beef that crosses the retail counter without considering the costs of cutting, packaging and merchandising the meat and the retail profit.

Various retail cuts obtained from a beef carcass sell for a wide range of prices. Some of these cuts sell at prices per retail pound which are less than half of the price paid per pound for the carcass at wholesale. More desirable cuts sell at prices which are more than double the carcass price per pound. Thus, before any marketing costs are added to the gross return received by the farmer, the retail price per pound must be more than double the live price per pound to equal the price paid for the live animal.

In the table below are listed various retail cuts of beef, prices per pound and the total value of the 1,000-pound live steer used in the example.

Table 1. Retail Price per Pound and Value of 600-Lb. Carcass

Item	% of carcass	Price*	Pounds in carcass	Total value
<b>Retail Cuts</b>				
<b>Steaks</b>				
Porterhouse, T-bone, Club	5.25	\$1.29	31.5	\$ 40.64
Sirloin	7.25	1.09	43.5	47.42
Round — (bone-out)	8.5	1.05	51	53.55
<b>Roasts</b>				
Rib	7.5	.89	45	40.05
Rump — (bone-out)	4.5	.99	27	26.73
Chuck	18.0	.59	108	63.72
Hamburger, stew, other cuts	23.0	.49	138	67.62
	74.0	—	444	\$339.73
Bones, fat, waste and shrink	26.0	.02	156	3.12
Total	100.0	—	600	\$342.85

\*Obtained from average prices published by the U. S. Bureau of Labor.

In the example given, the total return to the retailer is \$342.85. The average price per pound for the 444 pounds of retail cuts is, therefore, about 77 cents a pound (\$342.85 ÷ 444 = .772). The amount the retailer receives for cutting, handling and retailing the 600-pound carcass would be \$72.85 (\$342.85 — \$270 = \$72.85), or \$12.14 for each hundred pounds of meat handled.

On the basis of data for 85 selected stores and supermarkets in 3 cities, wages and salaries comprised about two-thirds of the total cost of retailing meat in 1950. Rent was the next highest single cost item with smaller amounts for lights, heat and power, licenses and insurance, depreciation of equipment, containers and wrapping supplies, maintenance, advertising, and other miscellaneous items (table 2). Profit is included in the miscellaneous item.

Table 2. Average Cost for Retailing 600-Pound Carcass\*

Item	Cost	% of total
Wages and salaries .....	\$48.30	66.3
Rent .....	5.97	8.2
Other		
Utilities .....	3.42	4.7
Licenses and insurance .....	1.75	2.4
Depreciation .....	2.19	3.0
Wrapping supplies .....	3.06	4.2
Maintenance .....	1.46	2.0
Advertising .....	1.75	2.4
Miscellaneous (includes profit) .....	4.95	6.8
Total .....	\$72.85	100.0

\*From a survey of 85 selected stores in 3 cities, 1950.

Some of the miscellaneous costs, including loss due to shrinkage and spoilage, can become very large when meat is moving slowly. The percentage figures listed are arbitrary in one sense, because each store has different policies and different degrees of mechanization.

The illustration used here used average figures throughout. Actual returns depend on the specific situation and will vary depending upon the relationship of costs and returns of the meat department at any given time. Further, "special" prices must be included when they are the effective prices at which important proportions of sales are made.

For more information on marketing costs and changes in the marketing margin see FS 209.

## RETAIL BEEF CUTS

