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BEEF MARKETING COSTS and MARGINS
By Wayne Schulte, Extension economist—marketing

Supplying beef every day of the year to over 190 million consumers is the business of millions of ranchers and farmers and thousands of marketing agencies. Farmers and ranchers start the production phase by growing the cattle and finishing them to slaughter weight. The marketing agencies—terminal markets, auctions, truckers, dealers, slaughterers, packers, wholesalers, brokers and retailers—provide the facilities and services required to move beef from the ranch and farm to the consumers at the time and place and in the form they desire.

The marketing process is complex as it consists of many different and necessary jobs. Who performs these various jobs and what it costs to transform a beef calf into a slaughter steer and then into roasts, steaks, ground beef and other products are of great concern to farmers and consumers alike.

Consumers often believe the prices they pay for retail cuts of beef such as roasts, steak and ground beef are high in relation to the price the farmer receives per pound for the live animals. And on the other hand, farmers often believe the prices they receive for live animals are low in relation to prices for meat at retail. The difference between the price per pound the consumer pays for beef and the price the farmer receives for an equivalent quantity of live cattle is called the marketing margin. It is a return to marketing agencies for their services. It includes all the charges for the processing and distributing services that are required to move live animals from the farm and convert them to meat in the consumer’s hands.

A question that is repeatedly raised is how to increase returns to the producer of beef, the rancher and feeder. The marketing margin for beef has continued to increase during recent years, with a smaller portion of the retail price going to the rancher and farmer. However, as will be explained later, this need not mean that the farmer or rancher is receiving less for his product nor that the marketing system is inefficient nor that profits by marketing agencies are excessive.

To illustrate the various steps and the costs of marketing cattle and beef from ranch or farm to retail, three examples based on actual market news reports of prices, are presented. The cases presented cover only two beef grades and only a few of the channels through which beef cattle move to market. They show that raising, feeding, and slaughtering beef animals and wholesaling and retailing beef are risky enterprises. The differences between costs and selling prices can vary greatly, yielding different margins for similar services at different times. For the livestock producer and feeder, they show that the timing of purchases and sales is a major factor in determining the profit or loss of the enterprise.

The examples of costs and margins for cattle and beef are:

I. A feeder calf from ranch in western South Dakota to retail in New York City.
II. A steer raised and fed on farm in eastern South Dakota to retail sale in Omaha.
III. A yearling feeder steer from ranch in south central South Dakota to retail in Philadelphia.

![Figure 1](image-url)

Figure 1. Comparison of the percentage of gross returns to producers and marketing agencies as estimated in examples 1, 2, and 3 on the next page.
The results obtained from these examples are not intended to suggest the average returns which might be expected from the different feeding systems, marketing channels or outlets, locations of slaughter, and retail outlets. Nor are they intended to indicate that any particular feeding program is superior to other programs, or that any particular marketing system or channel is superior to other alternative channels.

Marketing is a highly dynamic affair. Had the rancher, farmer, or feeder decided to market his animals 1 month earlier, or 1 month later, the results from these marketing decisions and movements might have yielded different returns to ranchers and feeders, to packers and wholesalers, and to retailers. A different marketing decision, therefore, might well have changed substantially the estimated distribution of the consumer's dollar spent for beef shown for each of these cases.
MARKETING MARGINS

Marketing margins—all the costs including profits and taxes incurred from the time farmers sell their products until they are bought by consumers—usually take well over half of each dollar consumers spend for food. How much of the retail price for a product goes to the marketing system depends on the amount of processing and other services required to get it to the consumer (figure 2). For meat products the marketing margin is considerably less than for products such as bread and corn flakes.

Figure 2. Shares of retail food costs.

In recent years, much of the food preparation job has been shifted from the home to the processing plant and retail outlet. The housewife prefers to have increased leisure time and pay for the added cost of the prepared food products. Added services can increase costs in various ways such as frozen foods, more thoroughly prepared products such as beef TV dinners, de-boned roasts, closer trimming, dried beef, individually wrapped servings and many other conveniences.

The addition of these services by the marketing agencies can be divided into the difference between the farm value and the wholesale value called the live to wholesale margin and the difference between the wholesale and retail value called the wholesale to retail margin. The sum of the live animal to wholesale and wholesale to retail margin is called the total marketing margin or farm-retail spread. The word “margins” as used in this discussion is synonymous with “price spreads” (figure 3).

Each one of the price spreads reflect the amount of services added to a product plus the profit taken by the marketing firms as a product moves through the marketing channel.

Large price spreads at the farm to wholesale or at the wholesale to retail level need not indicate that the marketing system is inefficient, nor that profits taken by the marketing agencies are excessive. Large margins may merely indicate that the job of bringing a specific farm product to the consumer is more costly than another or that more costs are involved in processing and services added to some products than others.

Several factors are involved affecting the size of the price spread or margin including:

1. Perishability, waste or loss during marketing. Meat must be refrigerated when transported and considerable fat trimmed at the retail level.
2. Location of production relative to markets. Meat and meat products are cheaper in the midwest than in most other areas.
3. Ratio of volume to weight or value to volume. Transportation and storage are affected such as boned and trimmed meat cuts require less transportation costs than carcass beef and aged beef is more expensive than non-aged beef.
4. The stability of prices. The more stable prices are the less risk involved. Unstable prices require larger margins to insures against losses. Fresh meat prices fluctuate more than processed meat prices.
5. Amount of processing, grading, packaging, or manufacturing involved. Although these costs can technically be considered part of the production costs, they are included in the price spread. Cured hams are more expensive than fresh hams.
6. Relation of sales to inventory. The processor and retailer must be compensated for financing and storing the product. If a rapid turnover is possible, inventory costs may be spread over a larger volume, with a lower cost per unit of product handled.
7. Amount of service added to each commodity. These include labor and material costs and are associated with packaging, advertising, promotion, delivery and credit.

SERVICES INCREASE MARKETING MARGIN

As more and more services are demanded by consumers, the size of the marketing margin increases and the percentage of the consumer’s dollar returned to the farmer declines. However, a declining percent-
age does not mean that the farm income necessarily declines in the same amount. An example of this can be illustrated as follows: Assume a feeder sold two truck loads of Choice grade steers, both loads averaging the same weight and quality. Both loads were sold the same day and the feeder received the same price for all the steers, $20 per hundredweight or 20 cents per pound. One load was purchased by a packer-buyer and the animals were slaughtered and sold as fresh beef through a retail meat market. The average price received for the saleable retail cuts averaged 75 cents per pound. In this case the feeder received 60% of the consumers dollar on a retail weight equivalent basis. (2.25 pounds of live animal required for each pound of retail cut x 20 cents = 45 cents. $45 ÷ $.75 = 60%)

The other load of steers was purchased by a packer-processor for the same price. The animals were slaughtered by the same method. However the resulting beef carcasses were further trimmed and boned-out then freeze-dried for a specialty-trade market. By the process of freeze-drying, the normal retail beef cuts are reduced in weight to one-third or less of their normal retail weight. In other words approximately 3 pounds of retail cuts are required for 1 pound of freeze-dried beef. The retailer sold the freeze-dried meat to hunters and campers for an average of $4.50 per pound. Approximately 7 pounds of live animal was required to produce each pound of freeze-dried beef (225 x 3 pounds of retail equivalent = 6.75 pounds). The feeder, therefore, received $1.35 for the 6.75 pounds of live animal required to process one pound of freeze-dried beef. The feeder’s share of the consumer’s dollar in this case was 30% ($1.35 ÷ $4.50 = 30%). Which way did the feeder receive the highest return?

In each case, the farmer received the same price for his steers at market but due to the cost of processing and added services, his share of the consumer’s dollar differed. However, his net return was the same in each case. The difference in the marketing margin did not affect his net return.

CHANGES IN MARKETING MARGINS

Producers and consumers are often concerned because marketing margins do not go up and down with farm prices and income. Many feel that when farm prices or income go up the marketing margin should also go up and vice-versa. To better understand why this does not occur, it is helpful to divide the consumer product into two parts—one, the food commodity and two, the amount of marketing goods and services added to the food commodity.

The price of slaughter cattle is derived from the demand of retail cuts at the retail level. Certainly it takes time for changes in supply to move from level to level in the marketing system and for information regard-

Figure 4. Retail price, wholesale, and farm values of beef.

Another reason for the retail lag in prices is that retailers prefer to maintain relatively stable prices except for “specials” to move increases in supply that may be of short duration. Therefore, live prices have shown a tendency to “overadjust” to both increasing and decreasing supplies. Rising cattle prices appear to go too high, falling prices too low to observe supply changes. By the same standard, retail prices seem to “underadjust.” They appear to lag behind changes in supply and to wholesale and live prices, both when supplies are increasing and decreasing.

Since processor and retailer margins remain about the same in the short-run, the change in the farm to retail margin occurs primarily from the change in the price of the food commodity. When cattle supplies are high and prices lower, margins tend to widen as a percent of the live price. Also as supplies of beef increase, because of the rigidity of retail prices and the reluctance of retailers to lower price, beef backs up in the marketing channels and live prices are depressed still more. On the other hand, when beef animals are in short supply and prices relatively high, the farm to retail margin is relatively smaller. The reluctance of retailers to raise prices then works the other way.

Fluctuations in marketing margins come about because cattle and beef prices do not maintain a fixed relationship to one another in the marketing channel. But a widening or narrowing long-term trend in mar-
gins is a clear indication of changes in the cost of performing marketing services or a widening or narrowing of profits. A widening of margins might be caused by the addition of consumer services in processing or merchandising food or by a rise in the price of the usual run of services. Operating expenses both for packers and retailers of beef appear to have gone up more rapidly than productivity so that it costs more to handle a pound of beef now than 10 years ago. More beef cuts are prepackaged now and retailers are trimming more fat and selling more boneless cuts. Each of these changes represents a change in the quality of the product and a change in cost. Furthermore, both the packer and retailer now pay considerably more for their labor per hour than they did 10 years ago—probably 40-50% more. However, they probably use 10 to 15% less labor and correspondingly more equipment, which also is higher in price than 10 years ago. Packers and retailers are more efficient today than they were 10 years ago and are thus able to offset at least part of the increase in their costs by more efficiently located, organized, and equipped packing plants and retail stores.

**HOW CAN PRODUCER RETURNS BE INCREASED**

Besides increasing the efficiency of production of the livestock unit, two alternatives appear to be possible that rancher or farmer returns can be increased from livestock enterprises. One is to increase the price of live animals and the other is to reduce or eliminate expenditures within the marketing system for labor, supplies, rent, depreciation and other costs that are reflected in the marketing margin.

To increase the price of the live animal will affect the retail price and therefore the amount consumed. If prices at the farm level were to be raised on a long-term basis by eight cents a pound above the average 1963 price of 24 cents for Choice cattle, the retail price would rise by about 18 cents a pound, all other factors remaining constant. However, marketing experience indicates that such a rise in retail prices would result in considerably less consumption of beef. For the producer to increase the price of the live animal would require supply of beef animals to be controlled either voluntarily or by some form of supply control program. This is a question that the entire cattle industry must determine.

The other alternative is to reduce marketing costs which make up the farm to retail margin. The producer has very little direct control of these costs although some are influenced by the manner in which livestock is marketed. Many of these costs have been reduced by improved processing and handling methods only to be offset by increased labor costs and added services. Various marketing costs have been entirely eliminated in the search for reduced marketing margins. Other services such as closer trimming of fat from retail cuts and de-boning of roasts and steaks have increased the services rendered and at the same time reduced the amount of product. From 1958 to 1962, the “regular” retail price for beef has averaged about 80 cents per pound at the same time that live prices fluctuated widely. While one of the important factors has been the preference retailers have shown for stable regular prices, the added costs of retailing the reduced amount of retail cuts obtained from a beef carcass are also important. The average cut-out of Choice beef carcasses has decreased from 80% in 1954 to 74% in 1960 and later years.

The notion is frequently held that exorbitant profits are being taken at the retail level and is largely responsible for the large spread from farm to retail. The solution to reduce the margin would then merely be to force the marketing channel to relinquish or reduce their profits.

Undoubtedly at certain times on certain goods profits may constitute an item of increased magnitude. During declining farm prices is the period when profits are most likely to increase for the processing and retailing levels as mentioned earlier. When prices at the farm level increase, profit decreases in these channels so it is the average profit over a relatively long period that is important.

Therefore, for examples of increased profits, there are other cases when profits have been small or negative. Profits as a percentage of company assets for recent years in the meat processing trade have averaged near the long-run cost of capital or approximately 4-5%. Retail food chains during the same years reported profits of approximately 11%, and although this is comparatively larger than for meat processing firms the rate has decreased from 1945-50, but data for the last 15 years show no significant trend. Although some firms have reported higher than average profits per dollar of sales, the averages for both packers and retailers for the last few years have been in the lower range compared to other industries.

The fact that profits of processors, wholesalers and retailers have been comparatively small and consistent indicate that most of the charges between producer and consumer are costs and not profits. It would appear then that one of the most logical ways to reduce the margin between farmer and retailer is to eliminate those processes and services that are not necessary as long as the industry functions under a free and competitive market system.
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