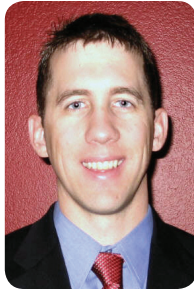


Consolidation Dates Back 30+ Years

By Mike Murphy

The cattle industry consolidation and concentration are on the minds of many cattle producers. This has never been truer since the announcement that JBS of Brazil will acquire National Beef Packing, Smithfield Beef Packing and Five Rivers Cattle Feeding. However, this is not a new phenomenon. In fact, consolidation has been a part of this industry since at least the 1970s.



The total number of cows in 1975 was 57 million and the total number of beef cows was 46 million. Fast forward to 2008 and our totals are 42 and 32.5 million cows, respectively. Obviously, with fewer cows it makes sense to have fewer producers raising the cows. In 1974 there were roughly 1 million beef cow operations compared to roughly 758,000 operations today. During this time frame the average beef cow herd size increased by 30%. Even more concentration occurred in the dairy cow industry as total numbers have declined 2 million head since 1975. At the same time the average cow herd has grown four times in size. The average cow herd size is 128 head today.

There has been a major shift in where the cattle are fed as the Southern Plains region, which includes Colorado, Kansas, New Mexico, Oklahoma and Texas, has doubled the number of cattle on feed relative to 35 years ago. On the other hand, the Midwest region has seen the percentage of cattle on feed relative to total supplies decline from 38% to 15%.

During this time frame the number of entities who own multiple yards has grown significantly. In the mid-1970s there were just a handful of companies who owned

multiple yards compared to today where only four of the top 30 cattle feeding operations own just one yard.

In the packing sector, the top four firms made up about 30% of the total fed cattle slaughter in the mid-1970s and roughly 10% of the non-fed slaughter. By the late 1990s the top four firms harvested nearly 80%. The top three of JBS (post merger), Cargill and Tyson harvest about 82% today.

The service industry, pharmaceuticals, machinery and feed companies, plus the retail/foodservice sector have all experienced consolidation during the last 30 years as well.

The advantages associated with size support the economics that spreading fixed costs over larger volumes enhances margins. In addition, there are also advantages with size when it comes to acquiring large amounts of capital to finance the higher cost of doing business. As a result, the long-term trend of increased consolidation and concentration will likely continue with fewer decision makers in all aspects of the beef industry.

Beef Industry Concentration

▪ Cow/Calf	↔	78,360 producers control 54% of cows
▪ Feedlot	↔	262 feedyards 60% market share Top 26 companies 47% market share
▪ Packer	↔	3 major packers 82% fed slaughter
▪ Retail	↔	Big 10 retail chain 77% market share
▪ Consumer	↔	303 million domestic 5% export

Feedyards Feel the Squeeze

Red ink continues to flow out of feedlots. According to the Livestock Marketing Information Center, the last positive cattle feeding return month was April 2007. LMIC data show the estimated loss for steers closed out in January was \$170 per head. This was the largest monthly loss since LMIC began tracking returns for feeding a 750-pound steer in the early 1970s.

The Feb. 22 cattle on feed report showed placements and marketings above a year ago but on the low end of

pre-report estimates. Inventory at 12 million head was 2% above a year ago and was the second largest Feb. 1 number since the price reporting series began in 1996.

January placements totaled 1.79 million, up 6% from 2007, which had very low numbers, and down 19% from 2006. All the year-to-year increase was in the lighter weights (under 600 pounds and 600-699 pounds).

January marketings at 1.86 million were up 1% compared to a year ago.