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FOR IMMEDIATE RELEASE

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## What's up with \$1.20 Cattle and \$25 Tenderloins

If you are in the cattle business I am sure at some point you have questioned the difference concerning the market price for fed cattle, when compared to the price in the meat case at your local grocery store. To clarify the title for someone not in the cattle business, the \$1.20 cattle is price per pound of the live animal and \$25 tenderloin is \$25 per pound. The tenderloin is the Filet Mignon when cut into steaks. This is considered the best cut. The other expensive cuts include the Ribeye and Strip Steaks that may be over half the price of the Tenderloin. I have recently seen these cuts in the \$13 to \$14 range.

With that explained, at least a little bit, here is a recent post that appeared in the Beef Blog last week that addresses this issue. In fact, I stole the title directly. The article was written by Laura Conaway for Certified Angus Beef.

It's an honest mindset: cattle prices go up, beef prices go up; cattle prices go down, beef prices ... stay where they are? "What gives?" a producer may ask.

"Don't always assume that retail price is driven off of the price of goods," Mark McCully said. The vice president of production for the Certified Angus Beef brand commented on the disconnect between ranch and retail, breaking it down at Angus University during the Angus Convention, Nov. 4-6 in Fort Worth, Texas.

Encompassing the entire supply chain, the world's largest beef brand draws insight from all angles. McCully said one common question from the ranch is why retail beef prices differ so much from what producers get for their cattle. The answer is essential for cattlemen making decisions about genetics and what traits to emphasize.

"Producers will walk into a grocery store and see a price per pound that's significantly higher than the price they sold those fed cattle for to the packer," he said, "so it begs the question, 'why?'" To answer, he began with a finished steer sold at \$1.21 per pound (/lb.), before breaking down costs along the way that go into retail pricing.

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A 1,400-lb. steer at that price costs the packer nearly \$1,700. From there, the 866-lb chilled carcass is applied to the comprehensive cutout of \$2.08/ lb. Applying a drop credit for hide and offal of \$0.12/ lb. or \$161 provides a gross profit of \$265/head.



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"Year-to-date, it's good to be a packer," McCully said, but there're costs associated with marketing and sales, processing and packaging. There's an average of \$20/head just in bag and box cost, he said. Assuming about \$200/head in total processing costs, that moves gross profit to a net of only \$65/head.

## BREAKING IT DOWN

So what about that tenderloin sold in the grocery store for nearly \$25/lb.? McCully broke it down further. On a 900-lb. carcass, only 14 lb. make up two prized tenderloins. That's 1.6 percent of the carcass weight that commands 7.2 percent of its entire value, McCully said, making it the most expensive cut on the carcass. Selling wholesale at \$9.70/ lb. and applying a 30 percent margin adds up to that subprimal cost of approximately \$175.28.

"Cattlemen have a bit of a struggle accepting margin," McCully said, "because that isn't how we get to work. We don't get to determine our cost, throw a 30 percent gross margin on and say 'this is what we're selling our calves for,' but when you get to the other side of this, that's how their business attempts to work."

They have a store to run, meat cutters to pay, he said. Not to mention, there's a chunk of business between the packer and retail store that producers aren't always aware of. "We want to make sure we don't just skip over that because there's cost involved, complexities that are really important in terms of the logistics, the flow to get our high-quality product from the packer, ultimately to the consumer."

Holding that \$175.28 cost associated with the tenderloins, McCully subtracted \$44 in credit from trim and lesser value items to end up with \$130.59. Dividing that number by the 5.3 average pounds of center cut filets brings a price per pound of \$24.64. "Those are just some of the pricing mechanics that ultimately come into play in these costs producers see," McCully said.

## QAULITY

From there, he said, it's important to determine the quality of the product in question. "Is it Select, is it Prime, because there's added value when you get up to the higher quality grades," he said. With an average Choice/CAB spread of \$9.23 per hundredweight, there's roughly \$83 of value attributed to a 900-lb. carcass that qualifies for CAB over Choice.

"As a farm kid, this has been a straight up and down learning curve," McCully said of nearly 17 years with the brand. "Understanding how retailers think, how they price products, all the math and things they go through to price their meat case." Once you've determined the value of the product, then it helps to know that every retailer has a specific approach to pricing. Perhaps it's an every-day-low-price model, a high-low model or a premium experience. Everything in the store is not priced with equal margins, McCully said. In fact, the meat case is often where those margins are the lowest, designed to differentiate the store from others, drive traffic and hope to make up for it when the customer purchases other goods.

"They all may be paying the same for their meat, but they're going to price it differently based on the cost to run their business," he said. Retailers have goals, both of sales and gross profits, that must be met. It's a part of the industry working together in tandem.

### **Dates to Remember**

- Dec. 11                      Pesticide Testing at the Old Y Restaurant at noon. Pre-register by calling ODA at 800-282-1955 or online at <http://pested.osu.edu>
- Feb. 20                      Adams Co. Pesticide Re-certification at Frisch's starting at 5:00 p.m. 3 hours of Pesticide and 1 hour of Fertilizer Re-certification. Must Pre-register.
- Feb. 28                      Brown Co. Pesticide and Fertilizer Re-cert at Southern Hills Board Office at 11:00 a.m. Must Pre-register.
- Mar. 2                        Highland Co. Pesticide and Fertilizer Re-cert at Southern State Community College in Hillsboro at 11:00 a.m. Must Pre-register.