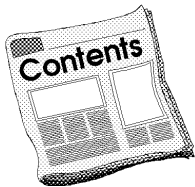


## SISKIYOU STOCKMAN

What's New in the "Top of the State". A report for Siskiyou Livestock Producers put out by the Farm Advisors Office, Cooperative Extension of the University of California, located at 1655 South Main Street, Yreka, California 96097

October 2004



### In This Issue

- New Products May Rely on Production Verification
- Special Feeder Sale
- Red Books Available

### Calendar

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|-------------|-------------------------------------------------------------------------------------|
| Oct 23      | Annual Dinner Meeting, Siskiyou County Cattlemen and CattleWomen, Yreka, CA         |
| Nov 5       | Special Feeder Sale, Cottonwood, CA                                                 |
| Nov 11-13   | California Cattlemen's Association Annual Convention, Sacramento                    |
| Dec 5-8     | California Farm Bureau Annual Meeting, Sparks, Nevada                               |
| Dec 13 - 15 | National Alfalfa Symposium & California Alfalfa and Forage Symposium, San Diego, CA |

### New Products May Rely on Production Verification

Profits were simpler with high prices. Despite shocks and disruptions to the market due to animal diseases, and basics like inventory, carcass weights and consumer demands, prices hover at historical levels. Yet, while all this is great news, the market for beef is changing, as are most other food products. ***The market for beef is changing from a commodity to a fragmented market of differentiated products.*** Prices for these different products will be related because the products are similar, but they will not be the same: some higher, some lower. Will you be getting the higher prices for your product?

Increasingly diverse consumers are purchasing beef from a rapidly consolidating but highly competitive retail sector. Consumers, retailers, processors, and society in general are placing more demands on food, as well as the people, companies and industries that produce it. John Lawrence from Iowa State University says, "the demand ***for*** beef is increasing, but so are the demands ***on*** beef". We in agriculture have traditionally operated on a "trust me" basis but we are now entering a "prove it" world.

What makes a "different" product? Many producers of beef think different products are based on taste and quality. Some research does show that consumers are willing to pay more for "guaranteed tender" steak, however, most consumers, retailers and processors tend to focus more on what have been called "credence" factors.

These are characteristics that consumers cannot discern even after the consumption of the beef.

For example, credence factors are organic, free range, country of origin and fair-trade. One study found that Chicago and San Francisco consumers would pay on average \$1.61 more per pound for US grain fed steak compared to Argentine, grass-fed steak. If you had only one product to sell on the average consumers would pay more for grain fed US beef. However, 23 percent preferred Argentine steak and were willing to pay \$1.23 more per pound. So, you could make additional money by having more than one product.

Premiums for certain products don't tell the whole story. Do the premiums cover the cost of production? And, cost of production includes costs of segregating the product throughout the supply chain to get to that consumer willing to pay more. *The more specific the product attributes, and the more choices consumers have, the more difficult and costly the product will be to market.* Many of these attributes cannot be detected by grading but must be verified during the process. The things you do as a producer are part of the process. How are they being verified?

### **Consolidation a worldwide phenomena**

Consolidation is occurring not only in the US but worldwide. In the US, the ten largest grocery chains have approximately half of the market. In Australia, three grocers share 70 percent of the market, four firms have 70 percent in the United Kingdom, and four firms have 66 percent in Chile.

Wal-Mart is the largest food retailer in the US and the World. However, two of the top three and four of the top ten largest food retailers are European companies that also operate in the US. The European model for marketing differs from the US. In the US consumers have trusted the government on food safety and production issues. For a variety of reasons consumers elsewhere in the world have less faith in their government on these matters and retailers have often filled the void. European firms have established their own requirements for production and food safety. Consumers in England may have three or more

choices of ribeye steaks based on whose quality assurance scheme produced the product.

US consumers are seeing more branded products. Instead of moving an anonymous piece of commodity beef, a branded product carries the name of the company. With the concentration and resulting marketing power production specifications and verification will become conditions of sale. Already this is occurring voluntarily in vertically integrated programs.

### **Quality Management**

*Grades and standards create commodities by establishing a minimum requirement for a specific grade and then all commodities of that grade are interchangeable.* The strategy becomes how to produce a product that is the same as everyone else's at the lowest cost. Grades and standards rely upon grading of the product and ignore the process. *Some attributes, especially some valued by consumers, cannot be measured by either visual or chemical methods. It is the process that must be verified.* Many beef programs have relied upon grading and inspection. For example Certified Angus Beef, CAB, although highly successful by many standards, relies on hide color and USDA grades. There are few beef programs that are process verified and require more than visual observation.

### **The cost of not meeting consumer demand**

You have to ask, "Do I get a higher price for doing the "extra stuff"? Often the answer is or will be yes, because the price for not doing it is less and there are fewer buyers for a product that doesn't meet the new specifications. Perhaps calves are acceptable to one feedlot but not another. A share of consumers are only interested in safe affordable commodity beef. These consumers are price conscious and producers remain with the need for lowest cost of production. If new increased requirements become the new minimum standard, then the industry continues to operate as a commodity, but one with higher minimums and higher costs. That is more work and perhaps more out of pocket

expense. However, if the added requirements help define beef as a different product at a higher price, then the added costs can be at least partially recovered in a price difference.

Adapted from The Cost of Meeting Consumer Demand. John D. Lawrence, Iowa Beef Center, Iowa State University, Ames, IA 5001. Presented at the 2004 Beef Improvement Federation Annual meeting. <http://www.beefimprovement.org/04proceedings/lawrence.pdf>

**Special Feeder Sale**

A new date is set to kick off the annual special feeder sale at the Cottonwood Auction Yard, Saturday, November 5. The annual sale previously held on the first sale day of the new year has been shifted to a fall sale to provide more opportunities for more local cattlemen to sell cattle. The local cattlemen’s association will continue to assist with the sale. Directors of the Association will be contacting you. For more information or to arrange transportation you can contact JT Martin, 459-5942; Jack Cowley, 459-

5506, Stan Sears, 459-3829, Cliff Munson, 467-3403, Scott Thackeray, 468-2684, Joe Sammis, 397-3456 or Jess Dancer, 398-4294. While the sale specializes in feeder cattle they can accommodate marketing of all other cattle including cows at the special sale. This is an opportunity for producers with smaller groups as well as larger ones, to capitalize on a big sale.

**Annual Dinner Meeting**

The annual dinner meeting of the Siskiyou County Cattlemen’s and CattleWomen’s Associations is Saturday, October 23 and provides opportunity to meet with local producers and hear current topics. Watch for their announcements or contact SCCA President Rex Houghton at 459-5437 for further information.

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This is your copy of the Siskiyou Stockman, which you requested, or which we thought would be of interest to you.

Sincerely,

A handwritten signature in black ink that reads "Daniel J. Drake". The signature is written in a cursive, flowing style.

Daniel J. Drake, Ph.D., PAS  
Farm Advisor - Livestock & Range  
530/842-2711

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