

# Beef Business in the 1980's

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*Dr. Bechtol: Our next speaker is Mr. Kenny Monfort. Mr. Monfort is the Chairman of the Board of Monfort's of Greeley Colorado. The Monfort Feed Business was founded in the early 1930's by Warren Monfort in Greeley. He started with cattle feeding and it has grown into a vertical integrated cattle feeding and packing and distributing enterprise. They currently feed, process, and distribute over 450,000 head of cattle a year. It gives me great pleasure to present to you Kenny Monfort who will speak on "Beef business in the 1980's."*

*Mr. Monfort: What about beef in the 1980's? Before we talk about that, let's find out where we are and how we got here. Retrace a little history of the beef business. This is an excellent crowd to do this with. You, like I, somehow make your living off beef cattle or at least cattle. If we go back 50 years in the cattle business, there was a far different industry from what we have today. Every once in a while I like to reflect on why we feed cattle. No only we and our company, but we in the United States. Why did the cattle feeding industry develop? A lot of us forget why. If we go back those 50 years, what sort of an industry did we have? We basically had vast numbers, or at that time they were considered vast numbers of cattle being produced on the roughage of this country and by the way that roughage is only usable for human consumption if we have ruminant livestock around and that is one of the things that the environmentalists seem to forget at times. We had these vast numbers of cattle on the range land of the west - stock fields of the midwest, roughage sources in the south and southwest area. Along about late summer and early fall and lasting into late fall, it came time for the harvest. The rancher had to cut his numbers to fit what he could carry through the winter and so he harvested some of his cattle. He harvested some old cows, he harvested two and three year old steers, some heifers and he harvested what he needed to and he sent them to market and where were the markets? They were in Chicago, Omaha, Souix City, Kansas City, Fort Worth, Denver; they were central markets. They were there basically because of transportation facilities. That was where the railroads went and that was where the big packing plants were. So you had a tremendous number of these cattle moving in a four or five month period into these central markets where the big packers would buy them. There would be a surplus of cattle so they bought them cheap. Packing plants ran hard for four*

or five months, laid their people off, consumers had cheap beef for a while, cheap and tough and then they ran out. It was a seasonal industry. It was like much of the vegetable industry was. Even that is getting less seasonal. You have large numbers of certain parts of the year with no cattle and four or five months with large numbers. What was that doing to everyone? The rancher had one customer, the packer, and the packers have been known to take advantage of such a situation. Secondly, the packer was not in that good of shape because he had a year's overhead and ran his plant four or five months. Thirdly, the consumer was not all that happy. A lot of beef for a little part of the year and not much for the rest. Employees at the packing houses had seasonable employment. At the same time, my dad and countless other farmers had feed stuffs they could not use. They switched from horses to tractors, they did not need as much hay to feed the tractor as they did the horse and they had surplus feedstuffs. In our area Gray Western Sugar had beet pulp. In other areas it was brewers' waste, in other areas it was many things, but here was feed that farmers had trouble selling and so it made eminently good sense to put those two things together.

This glut of cattle on one end, extra feed on the other and the cattle feeding business was born. It was not born because Safeway or Winn Dixie or whoever decided that they they wanted choice beef. That came later. That came about because people gradually realized that those cattle which had been in feedlots and had been fed grain or had been fed this or that, their meat ended up better than it did right off the range trail. So, in essence, we ended up with three reasons to feed cattle and those are still the three reasons that we feed cattle. The first reason is to spread marketing, the second is to use up available feed stuffs and the third reason, and this one came later, was to add quality to our beef supply. And the industry grew, and it grew and it grew. It expanded very rapidly. By the early 1970's it had expanded too rapidly. Every place they were building feedlots. They say that in Texas if a town does not have a 50,000 head feedlot right next to it that it would lose its post office. But it expanded and as we built feedlots, we had some other interesting things happening. We lost sight of some of those three reasons that we feed cattle. We started trying to make the feedlot the basic production unit for beef. We had surplus grains and we thought that they would forever be



*Mr. Kenny Monfort*

cheap. I have had cattle feeders brag about putting in 350 pound calves, feeding them a high concentrate ration until they weighed 1100 pounds and then wondered why they got too fat. We were doing lots of those funny things. Tax laws helped us overexpand. Tax shelter in feeding of cattle became to some people a fourth reason for feeding cattle but it did not prove to be economical in the long run not primarily because they changed the tax laws, but because those investors got far more money tax sheltered than they ever dreamt that they would. We had a wreck in the market in 1973-74. We had a couple of cattle feeders in Greeley, one of them was talking to the other one and he said that if this market does not change I am going to rob a bank. The other one says if it does not change, I already have! We had two brothers there, most of the people up there in Greeley, Colorado are very legitimate, good type, honest people. But we had two brothers who were a little different. They did not have the best reputation. Well, they were thieves. One of them was stealing calves and the other one was stealing feed and in 1974, they went broke! But during all this time, when we had overexpanded our cattle industry, to where we were literally sucking so many cattle into the feedlots that we then overexpanded the cow herd, every once in a while I would pick up the Denver Post or I would read in a magazine, all of the trade press, everything. And they would always say good news beef consumption is up. Beef consumption is ahead 120 pounds and that was good news and what that meant was

that we were sure happy that it was getting consumed. We were going broke but we were happy about it. Then all of a sudden we started thinking—what is beef consumption? Does anyone know of much beef that is thrown away, that is discarded, that is junked. I don't know of any. Beef consumption is beef production. Whatever we produce is consumed, whatever we produce plus any net imports is consumed. So, when we read those beef consumption figures, all we are reading is production figures plus net imports and if it is a per capita consumption, we divide it by the number of people and we get 120 pound or we got up a couple of years ago to 129 pounds. And when we got to 129 pounds, the business was in a mess and suddenly we realized, I think, that we somehow have to produce that which we can market well. I think that is one of the things that will happen in the 1980's. But it was something that was new to our industry, the thought that everything we produce is consumed and that the price is the tool that fits those two things together. From now on our industry is going to have to remember that.

While these things were happening to the cattle industry and the cattle feeding business, at the same time the meat packing business was changing. It had started as a very fragmented industry with lots of municipal abattoirs and then in the late 1800's and early 1900's it got very centralized because they learned more about refrigeration and learned to put refrigeration on wheels. Basically two men, Gustavus Swift and Thomas Armor changed the industry. By WWII, four or five major packers had about 60% of the beef business, Swift, Armor, Wilson, and Merrill and Rath. They had that business. After WWII, what happened? They decided not to modernize. They decided to stay with their eight Storey plants in Chicago, Denver, Fort Worth, Those same Central Markets. They decided to spend their money elsewhere and they made room for a whole new group of meat packers, ourselves included. We thought that it made sense to have a meat packing plant in Greeley, Colorado, not in Denver, Colorado. Iowa Beef Processors started their first plant in Denison, Iowa. Now they have become by far the largest factor in the beef packing business. Missouri Beef built their first one in Rockport, Missouri. Spencer in Spencer, Iowa. What you had was that the economics made sense. You take the packing plants to the cattle, rather than the cattle to the packing plants. This was made possible because the cattle feeding industry had developed and it had developed in certain areas and no longer did you have cattle coming from literally every railroad loading stop to a central market and then to the packing plants. Now you had concentrated feeding areas so that you could have packing areas in those areas and the industry changed. That was the first big change in modern beef packing industry. Then about 10 or 12 years ago some of us, IVP claims all the credit, decided that it no longer made sense to ship beef from Greeley, Colorado to New York City. We were shipping about 30% too much weight, fat and bone that had more value at the packing plant than it did where we were shipping

it so the boxed beef industry started to happen. We saved 30% of the freight cost, we delivered a more sanitary product and not only that, probably more importantly than that, we sent the right piece of meat to the right guy. That is of course unless we mess up once in a while. But we used to ship carcass to a man in New York who would then in turn ship cuts of beef to various parts. I got a kick last night. I ate at a hotel across the street. I asked the waiter if he would ask his chef where he got the steak. He said that he got it from New York City. I don't think that they got it from New York City, but maybe the industry has not changed as much as we thought. But that was the answer that I got. But 20 years ago, you would have expected it to come from NYC. But with the development of boxed beef, if they want "chucks" in New York and ribs in Los Angeles and "strips" in San Antonio, you can ship them that way. A far more efficient industry.

Right now the industry is going through the next change. This one I will not dwell on because this is one that I am touchy about right now. This involves labor rates. That no longer is true and there will be tremendous dislocations as labor costs become more and more a factor in our industry. Many, many plants that are not technologically obsolete and not obsolete from where they are located, the fat cattle are there and the customers are there, but a number of plants are becoming obsolete only because of their labor contracts, which seems silly but is happening. Enough of where we have been. Where do we go in the 1980's?

**I should be projecting dramatic changes if I were really going to impress you but I frankly do not see dramatic change ahead. I do not see changes of the magnitude of the establishment of the feeding industry or the establishment of quality grades or the establishment of packing plants where cattle are produced instead of where the railroad ends and where the people live. But I do see some changes. I think that we will see a beef business that is more attuned in the 1980's to the general economy, and more apt to react to the costs of competing meats and foods. I happen to think that our society in the 80's is not going to have the same affluence or growth in affluence as we have become used to. Why? We are going to spend more of our money on energy. We are going to continue to spend more of our money on transportation costs, health care, and unfortunately I think that taxes are going to mop up more of our income. Primarily, in the 80's I think that taxes will do this because I think that we will wake up and decide that we need to re-establish our defence capabilities in this country. This is going to drain off some of our income and our people are not going to have the same affluence as they had in the 60's and 70's. I think that they will become more price conscious.**

We even see this today. If you told me five years ago and gave me a scenario where we had the number of hogs being killed today and the number of beef cattle being killed today and I looked at the trend lines of prices and the trend lines of that, I would say to heck with that. The scenario we have today, cattle prices should be two to three times the price of

hogs. Because we have too many hogs and we are relatively short of cattle. That is not true and I think that part of the reason that this is not true is because our public is becoming less hooked on beef maybe and more value conscious. This leads into the second thing. That is the bad news which is that we may not have the affluence and the buy beef at any price attitude that we had before but that will work to our benefit on the down side. After we get done rebuilding the herds and as beef production goes up, we are offering more to the public, I think that they will very quickly react to value. I think that the combination of these things will help us to level off some of the price cycles that we have seen. In other words, I don't think that beef is going to get as high as we think that it should. On the flip side, I don't think that it will get as low as we might fear it will. I think that the American public will get more and more attuned to what indeed is a bargain and what indeed is value. Thirdly, I think that somewhere along the line this public which is losing the affluence or growth in affluence will eventually react. I think that they will change some of their thinking. We already hear a lot more about it than we used to. I don't think that this is because I now run about with different people. All of the sudden I hear people talking about us not using the knowledge and technology we have to produce more, more economically. You know, you have to face facts. Only an extremely affluent and bureaucratic society, could afford to do what we have done, to ban DES, and the feeding of antibiotics with the evidence that we have. You would have to have the extremes of both. You could not do that in a society where people were hungry. You could not do it in a society where bureaucrats have responsibility to the people. I think that will change. I think that we have more and more people questioning why this was banned, why that was banned. You know the original cranberry scare scared the life out of everyone. No one ate cranberries for a year or two but now you read that every day something else is found that either causes cancer or is immoral or is illegal or something and if there is anything left that I enjoy that has nothing wrong with it, we will read about that tomorrow in the paper and find out that there is something wrong with it. So, people are getting turned off this and I think that eventually this will work back through the government and hopefully you people, who are scientific people who have given us the tools to produce more beef more economically, who have given us the tools and have used the tools to keep those cattle alive and producing beef economically, once again in the 80's you will start to get new tools and will start to be able to use some of our old tools.

The fourth thing. I think that we are going to have an industry that we are going to have to do something to conserve energy—petroleum based energy. I happen to be one that does not think that the shortage is all contrived by the oil companies. I think that we are going to have periodic problems with our foreign sources of oil, I don't think that we can "turn everyone loose" and find all the oil that we need



tomorrow and I think that we are going to have energy shortages and our industry needs to react. I think that we will probably produce less feed grain than some might think because I think that eventually we will get into the question of how much petroleum-based energy goes into fertilizer and not only that but we get into the question how much fertilizer can you afford to use at X price. So I think that maybe we will see not a leveling of grain production but it will continue to increase, but I doubt that it will increase as rapidly as we might have once thought. I think that we will see more processing of beef at the plant level. We still ship about 10 or 15 percent of that carcass that is wasted. I think that eventually we will quit doing that. We are not going to go to frozen beef. We are not going to freeze the beef and steaks at the plant. That is energy inefficient and no one really wants to buy our frozen steaks. They want to buy it the way they are buying it now and we will let them do that for a while. In the 80's we will get further and further along our goal of more efficient production. Imagine how much more and how much cheaper beef we can produce if we all did the right things, if we all did what we know we can do at times. What would happen if we got a 95% calf crop in this country, and we can. You and I probably know people that do. What would happen if we weaned 500 pound calves, or if we had only a 2% death loss from birth to slaughter? If we converted grain and feed in the feedlot at 7 pounds to one, or if we produced meat in the feedlots instead of fat? We do it. We do it everyday. Everyday in our feedlot we have steers that are gaining, well we had a little storm a week ago, maybe not last week, but on the average, we have steers that gain 4 pounds a day, we have steers that gain 4½ pounds a day and we have steers that gain 1½ pounds a day. I am sure that we have steers that convert at 5½ or 6 to one in the same pen as those who converted 10 to 11 to one. So we can get more efficient. We are more efficient every day. The only problem we have is that we still rely on the averages. We could produce so much beef if we did everything right. The price would be so low that it would break us. So, I am going to try to do it better but we hope that we all don't do it that much better all at the same time. But we can become more efficient and that needs to be our goal, and it will happen.

I was asked to be on a committee of a governmental unit that I did not even know existed. I am sure that the good secretary knows all about it, it is the Office of Technology Assessment. So I served on a committee that discussed feed additives. The OTA is sort of a scientific arm of the GAO and reports to Congress and all those things. It was an interesting committee that they assembled to talk about feed additives. You know that it had the exact proper representation of women, minority groups, consumers, doctors, a couple of your profession, and it got down to where they had two slots evidently left for livestock producers so I handled the cattle, dairy cows and sheep, and the pork man handled pork and poultry. There were two producer representatives on the committee out of about 25. But the intriguing thing was in our first discussion of DES, I

gave my own view point. I said that I just think that you ought to just do away with it. The cattle industry really gets along better if we do not have DES. DES is basically profitable for maybe the rancher who may get more for his cattle with DES, not the feeder. Maybe good for the drug company, it is obviously good for the drug company or they would quit making it. The main beneficiary is the consumer. If you do away with it, you will have less beef to sell, the beef we sell will bring more, everyone will be happy, the consumer will not have that tainted beef, and everything like that. A certain guy who happened to be the food expert with Ralph Nader said that that is the thing that is beginning to worry us. We keep winning these battles and we keep making it more costly to produce food and I wonder where it ends. I said that it ends in higher prices, but you don't hurt the producer if you do away with these tools. You hurt the consumer. They are starting to see this but awfully slowly. Well the outcome of the whole OTA study was that the report that we wrote was pretty good and by the time it got through the bureaucracy of the OTA and to Congress, it looked like we condemned DES and antibiotics and everything else. But anyway, people are starting to think that and people are starting to realize that by taking away the technological tools they will be paying higher prices.

Let me talk about price levels. I think that sometime in the 1980's we will probably see \$1.25 fat cattle. That is from a current market of 66, 67, 70¢. So that sounds like it is going to be a lot higher. Don't kid yourself, that is about what it takes to stay at the same area in the inflationary world in which we live. I think that probably today's prices are as low as we will see in the 80's. So I think that we will have an inflationary trend and prices vary up and down from that trend but, the good news for some of you is that the business will be good, it will be health, and that cattle will be worth calling the veterinarian for and that cattle will be worth developing drugs to save. We are going to have a good business. I can find lots and lots of problems in our industry, but it has been an awfully good industry to me. I don't know where I could have made as good a living as I have doing what I am doing. So, with all of its problems, it has been good to me. We will have a good profitable industry in the next decade. I think that it is worth being tied to, but I also realize that there are times when I make mistakes. I made a couple of predictions and before you believe all of them, let me close with a story and this is what happens if you believe everything that I said. A man and a boy and a burro and they are walking along. They come to a stranger. The stranger says to this man and boy, "this is silly, one of you should ride the burro," so the man got on the burro and they rode a little ways. They came to another stranger. This stranger said "a big man like you riding that little burro doesn't look right, looks to me like you ought to get off and let the little boy on the burro." So the man got off the burro and the boy got on the burro. They went along a little further and they came to a third stranger and he said "what a strong little burro, it looks to me like both of you could ride the burro." So, they both

get on the burro, they go along a little further and they come to a fourth and last stranger, this stranger said "this is terrible, a big man like you and a big healthy boy like you riding that little skinny burro, you should get off and carry the burro." So they got off and they get a pole and they tie the burro's legs and they sling the pole over their shoulder and

they go walking along. They came to a ravine with a raging river and a little foot bridge and they are crossing on the foot bridge and suddenly the pole breaks, the burro falls off the pole into the ravine and drowns.

**The moral of that story is that if you listen to every stranger that comes along, you are apt to lose your burro.**

