Beefpacker Concentration

Market power in the meatpacking industry has been a concern among livestock producers since at least the 1890's.[2] In the early 1900's, the packing industry was dominated (perhaps 50 to 75 percent, depending on market definition) by five firms: Armour, Cudahy, Morris, Swift, and Wilson (the Big Five). Several species of livestock were typically slaughtered within a multistory plant, which was generally located at or near a terminal livestock market. Packer branch houses in population centers provided a local sales outlet to then small retailers.

The Packer Consent Decree of 1920 resulted from a Federal Trade Commission investigation of alleged anti-competitive practices on the part of the Big Five meatpackers. Allegations included the use of collusive devices such as market pooling. The packers entered into a consent decree wherein they agreed: (1) to divest themselves of public stockyards, stockyard railroads, market newspapers, and cold storage facilities, (2) not to engage in retailing of meat and other commodities, and (3) to submit to perpetual jurisdiction of the U.S. District Court. Because of mergers, reorganizations, and later court actions, the decree is without practical effect today. But it does provide the background for producers' suspicion of packers and for their expectations of government involvement.

Following the decree, the proportion of slaughter accounted for by the largest four firms declined (Morris merged with Armour), perhaps partly because of the consent decree, but also because of improved transportation, roads, and communication; increased use of Federal grades for beef; movement of livestock production farther west; and growth of retail chains. Following World War II, these forces accelerated. New independent single-species, single-story slaughter plants were built near production areas and away from terminal markets. Along with a decline in the top four firms' portion of total cattle slaughtered by all firms (the four-firm concentration ratio or CR-4 (Connor, Rogers, Marion, and Mueller, 1985, p. 70)), the market shares of the largest four firms rapidly declined, to 30 percent by 1956.

In the 1960's, the boxed beef revolution began. Pork packers had for decades cut hog carcasses into smaller cuts for further processing into bacon, ham, and sausage. Although not the inventor, Iowa Beef (later IBP) was a pioneering firm in effectively making the change to further processing (cutting beef carcasses into primal or subprimal cuts, packing cuts in plastic wrap, and shipping boxes of individual cuts). This process fostered incorporating assembly line processes into meat cutting, reduced shipping weight, improved handling ease and shelf life, and offered a broader range of alternatives to purchasers. Other packers quickly followed, especially the independents.

In the early 1970's, cattle slaughter increased to record levels, accommodating expansion by the aggressive independents, and the CR-4 remained below 30 for steer and heifer slaughter. But, in the late 1970's, after the dramatic downward shift in the previous general uptrend in cattle inventories, the number of cattle slaughtered dropped dramatically, returning to levels more in line with the general up-trend in total beef production and precipitating a shake-out among beefpackers. Hog slaughter continued to increase and the old line packers gave up much of their beef slaughter share to the new breed of packers and concentrated on pork slaughter. By 1980, IBP, MBPXL (formerly Missouri Beef and later Excel), Dubuque, and Land o'Lakes were the four largest steer and heifer slaughterers, supplanting the original Big Four, and the CR-4 for steer and heifer slaughter was about 36 percent.

As the industry evolved, steer and heifer slaughter and cow and bull slaughter were largely separate in plants and firms, partly because culled beef and dairy cows continued to be sold in relatively small lots and remained more geographically dispersed. As feed grain production increased in the Great Plains with the development of irrigation, steer and heifer marketings became concentrated among very large feedlots in four or five States after the 1960's.

[2]Meatpacking includes all aspects of slaughter, fabrication, and other delineations of the industry transforming live animals into meat cuts.

The 1980's brought the term "merger mania" to the beefpacking industry as many of the large firms combined, acquired existing plants, and built new plants. Cargill Inc. purchased MBPXL in 1979 and renamed it Excel Corp. In 1983, Cargill (Excel) purchased a plant from Dugdale and acquired three Spencer Beef plants owned by Land o'Lakes. The purchase was not challenged by the Department of Justice, but Monfort of Colorado challenged the acquisition in the District Court in Denver. Ultimately, the sale of Land o'Lakes plants to Cargill went through. After losing the case regarding the Land o'Lakes plants, Monfort became a part of ConAgra, which also acquired Swift Independent.

Today IBP, ConAgra (Monfort), and Cargill (Excel) dominate in numbers of steers and heifers slaughtered and fabricated and pork slaughter and processing, with National Beef a distant fourth (*Cattle Buyers Weekly*, Sept. 23, 1996. p. 2). ConAgra is also an important poultry processor. Cargill recently sold some integrated poultry operations to Tyson and purchased some of Tyson's pork slaughter plants. The large firms are also rapidly gaining in cow slaughter, including instances where large steer and heifer firms have acquired cow slaughter plants.

Throughout recent decades, the number of meatpacking firms and plants has declined, with smaller plants closing and large plants accounting for more slaughter. In 1974, 1,350 federally inspected plants slaughtered cattle (plus a large number of plants not federally inspected) in the United States; of that number, 850 plants were large enough to report to GIPSA (Grain Inspection Packers and Stockyards Administration, formerly the Packers and Stockyards Administration).[3] By 1997, the number of federally inspected plants slaughtering cattle had dropped to 812 and the number reporting to GIPSA had dropped to 274 (USDA, 1999).

In 1980, 626 plants in 561 firms reported steer and heifer slaughter to GIPSA. In 1996, 211 plants in 174 firms reported. The only size group of steer and heifer plants to increase in number after 1985 is the 1,000,000-head-or-larger category, which increased from 5 in 1986 to 14 in 1996. The increase came primarily from existing plant expansion, not from newly built plants. The 22 plants slaughtering more than 500,000 head per year accounted for about 22.6 million of the 28.6 million steers and heifers slaughtered in 1996.

[3]Plants reporting to GIPSA include federally and nonfederally inspected establishments. Firms purchasing less than 2,000 head of all livestock, or less than 1,000 head of cattle prior to 1977, or less than $500,000 worth of all livestock since 1977 need not report.