

THE POULTRY INDUSTRY:

A DELIBERATE ACT OF SELF DESTRUCTION

by

Allan E. Lines
Extension Economist
The Ohio State University

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Thank you for that introduction. I am here at the invitation of one of your fearless leaders, Alice Walters. You know, from the program, the title of my presentation. If you don't like what I have to say blame Alice, not me. Not really. I do accept full responsibility for my thoughts and actions. What I don't want you to do is get up in the middle of my presentation, as one of my students on campus did a couple of years ago, draw me this picture and then ask me, "What is it?"

The title of my presentation probably leaves some you asking "What is it now? Who's complaining now? Has the situation in Marion and Wyandott counties really done that much damage? That is not the focus of my presentation. I want to concentrate on three elements today. First I want to take this opportunity to help you review your understanding of Economics 101. Many of you, I know, are going to think - "This ivory tower economist is going to teach me about the real world of economics?" You're probably right. But I'm going to try anyway.

I'm a fool for punishment. As some of you know I conduct a series of commodity outlook extension education programs across the state each fall. Let me relay a true story to you, related to this. Last fall (September) our Dean, Bobby Moser, was leading a faculty discussion with faculty members about what we as faculty could do to improve the performance of our college. I came into the meeting a few minutes late. The only seats available were near the front. I quietly walked up and sat down without Dr. Moser noticing, at least that what I thought. Just as I sat down he turned and looked me. He stopped right in the middle of what he was saying. It was quite obvious to the rest of the faculty he was focusing on me. He said, looking straight at me, "I know one thing we can do. We can get his guy Allan Lines to retire." No laughs from his audience. He had a serious look on his face. If you think I wasn't shaken just a little, your mistaken. He let it sit for a moment and then proceeded with the rest of his story. Saying that I had put my neck and the college's reputation on the line by telling farmers in the fall of '95 to hold their corn and soybeans until the summer of '96 because prices were going to explode. You know what happened. "Well Allan," the Dean continued, "you better retire and quit while you're ahead. Your not going to top this one." But, being a glutton for punishment, I continue to try to outguess the market.

Second, I will share with you some things about your industry that you already know. However, it will be good to review some of your accomplishments, in light of the economic lesson and it will lay the foundation for some concerns I have about your future, which will be the third item for discussion.

Economic 101: What is 'capitalism?'

Now for the lesson in economics. We have been a while getting to it, let's give it a whirl. Do we really understand what 'capitalism' is? Do we define it in terms of what we understand it to be or in terms of what we understand it 'not' to be. We know the world had been engaged in a great economic struggle (call it a social, political, economic

experiment if you wish). Regardless of what you call it, that struggle ended in 1989 when the Soviet Union died. The battle had been brewing for 60 or more years before the Russian Revolution in 1917, which most of us point to as the beginning of the struggle. Economists, philosophers, and social activists had openly struggled with this contest of ideas since the middle of the 19th century. Karl Marx and Friedrich Engels, Marx the philosopher and Engels the industrialist (believe it or not) brought the struggle to the front burner. Trotsky, Lenin, and Stalin finally were able to move the contest between communism and capitalism from the textbook to the ‘real world’ arena. After an open “cold and sometimes hot” contest of nearly three-fourths of a century, it is often heard, “We won,” but do we really understand what it is that won. Yes, you will say, I know that capitalism won. But now I want to ask you - “What is this thing called capitalism?” Who will venture a definition, as you know and live it in your personal and business adventures?

The foundation for understanding capitalism and knowing in advance that “capitalism” would win the contest comes from a famous Austrian economist named Joseph Shumpeter. Building on the insights other giants in the field like Adam Smith and others, he developed economic concepts that approached the economy from a perspective different from his contemporaries. The implicit norm of the Marxian and the Keynesian world is ‘equilibrium.’ Shumpeter took ‘disequilibrium’ as the norm. Here the focus is on natural forces that cause change in the economy. The great failure of the Marxian world was to restrain, prevent and even discourage change beyond what the founding fathers saw as the solution. It’s competitor, ‘capitalism’ recognized the need for, permitted, and encouraged change.

The first basic tenet of capitalism embraces the reality of the marketplace that all successful business managers like yourselves know from the ‘git-go,’ learn it very rapidly, or disappear from the business arena. Knowing in your economic heart and understanding that -

GREAT MANAGEMENT PERFORMANCE TODAY

- IS GREAT FOR TODAY
- IS OK FOR TOMORROW
- BUT IS NOT GOOD ENOUGH FOR THE DAY AFTER TOMORROW

is the key to economic success.

Why? Here’s the point of Econ 101.

When we understand that capitalism, by its very nature, is not just an economic system, but that it is a ‘method of economic change,’ we begin to grasp the deeper meaning and power of capitalism. When we embrace the fact that some things may not be inevitable, but that consumer choice is inevitable and we set about to meet the demands of that

choice, we are a long way down the road of understanding what you have done to destroy your industry.

Changes has come as a result of consumer choice and your attempt as an industry to meet the challenge of change. Change has come in the form of

- NEW CONSUMER GOODS
- NEW METHODS OF PRODUCTION
- NEW MARKETS
- NEW MARKET SYSTEMS

These changes revolutionize the economic structure of an industry

- FROM WITHIN
- UNCEASINGLY DESTROYING THE OLD
- INCESSANTLY CREATING A NEW ECONMIC STRUCTURE

That new structure is focused on serving the consumer.

Your poultry industry, of all the agricultural enterprises in the U.S., is the shining example of an industry that has deliberately and purposefully destroyed itself repeatedly during the last half century with the objective of creating a industry better suited to meet the demands of the consumer. This has not been an exercise to make you more money. It has been a natural sequence of your foresighted leaders who knew they had to destroy their past in order to create a future that could and would meet the unrelenting consumer demand for higher quality, lower cost, and more convenient products.

Capitalism is a process of creative destruction where the consumer is king. Your industry has fulfilled 'capitalism's' promise to the consumer. Unlike some other segments of American agriculture, without mentioning names, your industry did not stand behind the veil of government protection. Your leaders took the bull by the horn and accepted the challenge that consumers and technology put before them. You are reaping the rewards of your predecessors that were willing, in a business sense, to die, so that your business could live in what they saw as a bright future. They are to be commended for they foresight. Your challenge is now to accept the fact that you too must plan to destroy your business, as you know it, if it is to be part of the future that consumers will demand.

Now for point two of this economic diatribe, as some of may view it. But let me first relate the story of the economist presenting a lecture to a group of business leaders. Your know that we are long winded and can lose ourselves in a discussion of esoteric topics such as foreign exchange, M1, M2, and other topics of deep interest to the general public. Well, this professor economist was invited to a prestigious university and delivering his lecture from behind the podium with the president of the university sitting immediately to his right. After about an hour of this intellectually stimulating

presentation a drunk in the back of the room came weaving up the aisle with the bottle in his hand. He struggled onto the stage and the professor kept one eye on him and the other on his text. The drunk got closer he swung the bottle, the professor was prepared, he ducked and didn't miss a beat in his lecture. Missing the prof. the bottle found a target in its path- the university president sitting nearby. The president fell backward with the blow. The prof continues. The pres. struggles to his feet and grabs the podium not wanting to lose his opportunity and says - "Hit me again. Hit me again. I can still hear him talking." Let's review briefly what the industry has done to insure its current success.

Your industry has changed in structure. The evidence we are to garner from public sources doesn't tell the whole story, but it demonstrates with ease what has been to insure the economic viability of your business. I will only use a segment of the industry (broilers) to illustrate the point and you know the same has happened with eggs and turkeys. In 1959, eighty-six percent of the farm that produced broiler sold less than 60,000 birds per year. By 1992, the latest number we have from the Agr. Census, only 27 percent sold less than 60,000. On the other hand, in 1992 eighty-three percent of the farms sold 60,000 or more and 65% sold 100,000 or more per year. The other dimension of this of course is the % of total sales accounted for by each size class of producers. In 1959, those producers selling less than 60,000 birds accounted for 52% of the production. By 1992 they only accounted for 1% of total production. During the same time period, those farms selling 100,000 or more birds increased from 28% to 96% of total sales.

The poultry industry has changed location of production in an attempt to meet the consumers demand for a lower cost product. Turkeys will serve the example here. The major change has taken place in the south and west regions of the country. In 1950 twenty-three percent of U.S. turkey production was in the south and 30% was in the west. By 1994, the south had captured 41% and the west had declined to 9%. The north central states did not change appreciably during the intervening years.

The change that is in some sense was the result of these changes already examined is management performance, expressed in terms of efficiency of production. Let's look very quickly at a number of these, because this is where the creativeness of your destroying the old really shines. Eggs per hen per year continues to climb, though more slowly in recent years. In the 20-years between 1955 and 1975 production per hen increased 21 percent. During the last 20 years, only 9 percent. The same strength of change and concern with current change is demonstrated with feed efficiency. Feed per lb. of bird decreased 26% during the first 20 years but only 10 percent during the last 20. Changes in management, nutrition and breeding enable producers to reduce the time, and hence the cost, of producing a broiler during this period of creative destruction: 23% fewer during the first 20 year period and still a strong 16% fewer days during the most recent 20 years.

Your new systems of production have had their greatest impact of course on labor, a high cost item. The hours to produce a dozen eggs declined by 73 percent from period immediately following WWII to the late 60's and fell another 50% during the next 10 years. I'm not sure where it is today. The data are scarce. I wouldn't be surprised if it

were down another 50% during the last 15 years. The broiler and turkey industries turned in the most impressive increase in labor efficiency during the period 1945 to 1980, down 98% and 97%, respectively.

Now for the composite effect of your creative destruction. The real cost of product to consumers. The real cost of turkey has been reduced by 71% during the past 40 years, encouraging the consumer to consume to nearly triple the amount of turkey consumed per capita, from 5 to nearly 19 pounds. The real cost of broilers has declined 70% during the same time period, with a commensurate increase in consumption per capita from 14 to 81 pounds, nearly a five-fold increase. Eggs are another story. Whereas, the real price of eggs has declined significantly, nearly the same as broilers and turkeys at 69%, consumption has declined from an egg a day (360 per year) to 2 eggs each three days (235 per year), down 124 per person per year.

Now let's look at some concerns. Remember, your business is not finished changing. Neither is your competition. The question remains are you willing to creatively destroy what you have worked so hard to create so that you continue to be the preferred meat on the American dinner plate. I show you final two charts to bring my concern about your future to focus. Notice first, the changes in consumption of poultry relative to your competition. Poultry is clearly the preferred meat in the U.S. It's almost impossible for us to eat more meat. This year we will, on average, consume about 210 pounds of meat per person. When asked the question, "Why the switch from beef to poultry?" Most people will respond, "Because of concern about eating a healthy diet." Wrong. Wrong. Wrong. Yes, there is some health concern, but the primary reason is price. Look at the next chart. Consumers with limited budgets and families to feed are deciding they can put a poultry meal on the table at 1/3 of the cost of beef and at about half the cost of a pork meal. That may be a little overstated, however, when we consider that most of the chicken eaten in the U.S. is now the higher priced breast.

This graph also provides us some insight into what your competition is trying to accomplish to meet you at the dinner plate. The pork industry has finally wakened up. It is creatively destroying itself to make sure it has a place at the dinner plate in the future. Pork producers are engaged in a massive production/management change to reduce their cost of production and improve quality, just as you folks did during the past 40 years.

You folks put your Converse 'sneakers' on long ago. The pork have just purchased the latest 'air pump' Nike track shoes. They are out to capture your market. What are you planning to do to meet that challenge? Have you run out of options? I don't have the magic bullet, but I do believe you better have a few tricks up your sleeve that will enable you to further lower your cost of production.