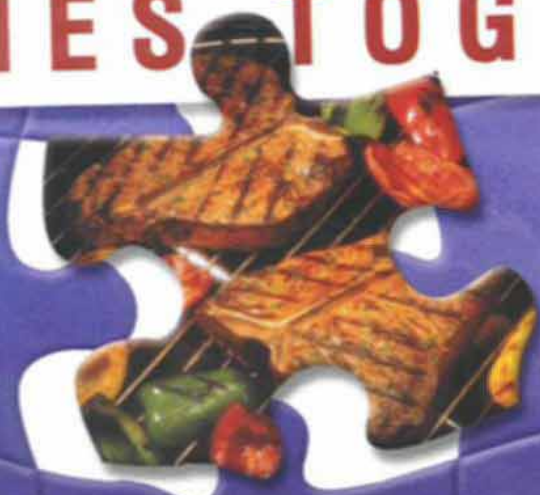


WHEN A PLAN COMES TOGETHER



The industry long-range objectives in 2000 were seen as an ambitious plan to build beef demand. And after 20 years of demand decline, ambition was needed. The plan worked. Now what will it take to keep demand rising in the future?

BY DOUG PERKINS

Four years ago, beef producers dedicated their checkoff resources to increase beef demand by 6% by 2004. Cattlemen's Beef Board leaders rewrote the checkoff's long-range plan solely to achieve this goal. But even optimistic beef producers wondered whether beef demand could increase an average of 1% every year following such a lengthy decline.

Now, turn the calendar to the end of 2003. The Beef Demand Index showed consumer beef demand rose more than 5% compared with a year earlier. In other words, 84% of the checkoff's four-year goal was achieved in just 12 months. Even more impressive was the 15.4% increase in demand that had occurred since 1998—the year beef demand stabilized after its two-decade tumble.

How did the beef industry surpass its ambitious beef demand goal a year ahead of schedule? And what are the

chances the industry can maintain this impetus?

We can't look ahead until we look behind and recognize that the beef industry has been the beneficiary of an extraordinary series of events that converged at just the right time. To put these events into perspective, we asked the opinions of an economist, a registered dietitian and a restaurant chain executive.

Their comments indicate that a commodity like beef must have the ability to recognize those occasions when narrow windows of opportunity open. Then, to take advantage of those openings, beef has to have a plan. In 2000, through the foresight of industry leaders in developing a program to build beef demand, the checkoff was able to put that plan into operation.

Often, those openings involve unforeseen events. That was certainly the situation that James Mintert, Ph.D., professor of agricultural economics at

Kansas State University, observed when he analyzed the period from 1998 to the present.

When measuring beef demand, economists look first at changes in prices of substitute proteins and changes in consumer income. After those factors, adds Mintert, there's "the catchall."

While substitute meats and consumer income changes are easy to track, the "catchall" is more difficult because it includes unpredictable conditions.

For instance, Mintert said, the effects of 9/11 were unexpected. So was the meteoric rise of the Atkins diet. And few experts predicted the instantaneous and widespread acceptance of the new Flat Iron cut, which was developed with beef checkoff research and development funds.

"A lot of the increase (in beef demand) is because of factors that didn't exist in the early 1990s," Mintert said. But these factors are certainly operating

today, which is a pleasing story for the beef industry following 20 years of bad news. In the following, we take a look at two of these "catchall" events—protein diets and innovative new beef products.

PROTEIN DIETS

The 1980s and early 1990s—the era of beef demand decline—also were related to the rise of low-fat diets. The era basically began with the McGovern Commission's Dietary Goals for United States in 1976. It continued through the next two decades as the environment created a platform for anti-meat philosophies including those by physician Dean Ornish and others.

In 1987, the \$1 beef checkoff program launched its education, research and promotion programs in the eye of the low-fat storm. Considering the tone of these decades, it is amazing that the checkoff found the ear of health professionals. But through science-based research and professionalism, the checkoff forged partnerships with groups like the American Heart Association, American Academy of Family Physicians and American Dietetic Association. These partnerships opened communications channels through which beef information could flow.

To complement that effort, the industry also funded research ranging from Texas A&M University's 1991 Market Basket Study to the moderate protein study published in 2003 by Donald K. Layman, Ph.D., professor of nutrition in the department of food science and human nutrition at the University of Illinois at Urbana-Champaign.

The Market Basket Study generated credibility by showing that beef producers were listening to consumers' concerns and offering leaner products.

The moderate protein study created widespread interest in beef by proving that lean beef within a balanced diet could reduce body fat and maintain muscle. Layman's diet included as much as seven beef meals per week.

The volume of checkoff research came together in this decade just with the re-emergence of the "Diet Revolution" that the late Dr. Robert C. Atkins first introduced in 1972. Atkins' diet limited carbohydrates and not fat. Large numbers of consumers who despaired of following low-fat diets with little noticeable results tried Atkins' approach. They found that his plan allowed dieters to enjoy their food while they also lost weight and felt better. Importantly for beef demand, Atkins' devotees increasingly turned to beef for their protein source.

Mintert sees the Atkins and the South Beach Diet, another popular alternative to a low-fat diet, as emerging at a particularly key time for the beef industry. Interest in these diets helped soften the blow of the post-9/11 economy for the beef industry.

"There definitely was a slowdown in the U.S. economy in 2002 versus the prior year," Mintert said of the 9/11 aftermath. "Then the economy started picking up steam with rapid GDP growth, particularly in the last half of 2003, and that was partly, but not solely, responsible for a rebound in beef demand. We saw retail beef demand up 10% during the fourth quarter of 2003 compared with a year earlier. Part of the demand increase was associated with the strength in the U.S. economy, but it also was up because of the underlying shift in consumer interest toward the high protein diets."

Dietitians like Katherine Chauncey, Ph.D., R.D., refer to them as low-carbohydrate diets.

(continued on page 40)

BEEF BENEFITS FROM SHIFT TO NATURALLY NUTRIENT RICH FOODS

A current that is flowing beneath today's low-carb diets is a desire to move away from trends and get back to a balanced plan. Dietitians are encouraging that approach through a nutrition strategy that encourages individuals to eat more whole foods or naturally nutrient rich foods, like fresh meats, raw produce, whole grains and dairy products.

"If you define naturally nutrient rich foods," says Shalene McNeill, Ph.D., R.D., senior nutrition communications manager for the Texas Beef Council, "it would be the foods that you find in the perimeter of the grocery store. That contrasts with the interior of the store where a shopper can find cans, packages and boxes that contain processed foods that generally do not fit this naturally nutrient rich category."

Dietitians are seeing that consumers—particularly women who prepare meals for their families—can benefit from moving toward naturally nutrient rich foods for two reasons:

- ✓ The diet concept allows their families to enjoy basic, wholesome foods in balanced proportions.
- ✓ These young mothers appear eager to break the trend toward super-sized fast-food and highly processed portions that seemed to engulf their generation as it grew up.

These perceptions will continue to favor inclusion of beef in the diet since beef is heavy in nutrients and much leaner than 20 years ago. Even beef's value-added products, such as the highly popular heat-and-serve beef dishes that entered the retail case just five years ago, won't buck the trend.

"Consumers tell us they want to eat healthy, but many find it a challenge to do so," McNeill said. "As a result, we are a nation that is overfed and undernourished. At the same time, this situation supports the move toward choosing naturally nutrient rich foods to fill the gap. And because beef is naturally nutrient rich, it will be one of the foods that will benefit from this consumer shift."

Doug Perkins

It's a more accurate term since the common thread of most of these diets is that they encourage consumption of fewer carbohydrates. The diet plans also vary in how they differentiate among refined carbohydrates like white bread and pasta and natural carbohydrates like fruits.

But the key element for the beef industry is that protein sources like lean beef benefit because they contain no carbohydrates.

There is nothing new about the low-carb concept, said Chauncey, associate professor/nutritionist with the Department of Family & Community Medicine at the Texas Tech School of Medicine in Lubbock. Chauncey also is founder of the Whole Foods Weight Loss Eating Plan (<http://www.ttuhsu.edu/SOM/FamMed/wholefoods.html>) and author of "Low-Carb Dieting for Dummies," published in November 2003, as part of the popular "For Dummies" line of reference books.

"Low-carb diets recycle about every 25 years," she said. "They go in and out of popularity, but they've been around a long time—some say as long as a century."

This current cycle may have a little extra impetus to it. It's almost like a period of rain following a long drought. The rain may not come down any faster than before, but it sure seems that way. Low-carb diets promote that sensation among consumers. The low-fat era was marked by austerity and dieters felt guilty eating any food that they enjoyed. The low carb diet makes everyone happier because protein tastes good and people lose weight. So consumers want the cycle to last longer. That contrast between the two kinds of diets has not been lost on health professionals, Chauncey said.

"At the time the low-fat regimen was being preached, the American Heart Association came out with guidelines and I, like many other health professionals, tried it with patients," Chauncey said. "But we didn't always see the weight loss we wanted, and we didn't always see cho-



Importantly for beef demand, Atkins' devotees increasingly turned to beef for their protein source.

lesterol and triglycerides get better. In fact, in some cases we saw them get worse."

With the Atkins diet, on the other hand, people are losing weight—especially in the early stages. And cholesterol and triglyceride levels have not increased across the population as many experts predicted.

"Generally, it's a water weight loss (with Atkins) because reducing carbohydrates in your diet causes you to start breaking down glycogen stores," Chauncey said. "Glycogen has a lot of water in it. As it breaks down, you see spontaneous diuresis in the early stage of the diet. So people can make claims that they lose from 10 to 20 lbs. the first month. But you're not going to lose 20 lbs. every month."

If you're a dieter, though, the initial weight loss is impressive and your success creates other converts. That is obvious to Mintert as he analyzes conditions that impact beef demand.

"As you travel around to different markets, you see the Atkins diet repeated over and over in different restaurants and on television and in grocery stores," he said. "It's a trend that has really had an impact on consumers, especially the last couple of years."

James Cassidy is corporate chef and purchasing director of Ram International

of Lakewood, Wash. Ram International's restaurant chains, located in eight states, includes Humperdinck's in North Texas. Cassidy recently toured every restaurant in the company. Without exception, he said the Atkins Diet is driving customers to restaurants for beef.

"I'd say conservatively that 35 to 40% of our customers are on the Atkins diet," Cassidy said. "We are even developing a new menu for persons following the Atkins diet. This is a trend that is going to be here for a while. We're seeing people who have no idea what the diet is all about ask for beef because they're just following what others do."

The Dec. 23, 2003, diagnosis of BSE in the United States had little effect on customer ardor for beef dishes, Cassidy said. The only place his company noticed a drop off in beef requests was in its headquarters area in the Pacific Northwest where the single cow resided. And even there, Cassidy said, consumption quickly returned to pre-BSE levels.

Chauncey believes Atkins' success comes from differentiating itself from low-fat diets. Low-fat food does not always taste good and dieters grow hungry between meals. With the Atkins diet, on the other hand, people eat protein, which tastes naturally good and has a high satiety factor. In simple terms, persons following the Atkins' plan can sustain the diet longer with better results.

But as a dietitian, Chauncey doubts whether the Atkins diet is anything but a quick remedy with few long-lasting effects. As with many other rapid-weight loss diets, she has seen followers of Atkins' plan quickly regain weight once they return to a diet with carbohydrates.

She believes that diets like the Whole Foods Weight Loss Plan and Layman's checkoff-funded moderate protein diets are more realistic. They both allow lean proteins, although she recommends consumption of a variety of meats including beef. *(continued on page 140)*



WHEN A PLAN COMES TOGETHER

(continued from page 40)

Her diet also recommends low-fat dairy products, unlimited fruits and non-starchy vegetables and limits carbohydrates to five choices per day.

"Atkins has some great features that have caused clinicians to stop and think how to prepare a diet that is much more livable," Chauncey said. "But you have to be cautious any time a diet says you can lose X number of pounds in X amount of time. The Whole Foods plan is a diet for a lifetime. You lose just about 1 to 2 lbs. a week—not 20—but it still lets people eat and not get hungry."

"By definition, fads don't last. How do you avoid a potential letdown when Atkins is not as hot a topic as it is in 2004?"

Mintert questions the long-term impact of the Atkins diet on beef demand.

"The Atkins diet took off in almost fad proportions," Mintert said. "By definition, fads don't last. So you have to question whether this will be a long-term positive or just a short- to medium-run positive for the beef industry. Three to four years from now, how do you avoid a potential letdown when Atkins is not as hot a topic as it is in 2004? I think the key is for the beef industry to continue to innovate."

NEW PRODUCTS

Why innovate? Marketers understand that every product undergoes a life cycle where it reaches maturity and then starts declining. During the declining stage, market share can shrink and demand can fall.

At the end of the cycle, some products simply go away. Remember Ipana toothpaste? Sometimes new, disruptive alternatives supplant existing products. For instance, CDs eclipsed long-playing records and the DVD-R format is making VHS tapes obsolete.

Some products get new life through reinvention. This process is why long-time staples like detergents are eternally coming out with new versions that contain different enzymes, a lemon scent or simply revolutionary packaging. With each reinvention, the product establishes a new inflection point on the product cycle. And the process starts all over again.

Leaders of the beef checkoff program in the late 1990s realized that beef needed reinventing. The industry was not only getting mature, it was in danger of being outdated. Poultry had become beef's major competitor and it was generating new products that were disrupting the meat case at a pace that delighted consumers and alarmed beef producers.

"One of the big differences between beef and poultry in the '80s and '90s was that the poultry industry was very innovative in developing products that were meal solutions for consumers," Mintert said.

WHEN A PLAN COMES TOGETHER

(continued from page 140)

"Beef was trying to market the same products that were out there two decades ago. Clearly, that had an impact on (lower) beef demand during the 1980s and 1990s."

Mintert and his KSU colleagues prepared a beef demand report in 2000. In it, they advised the beef industry to move forward with new innovations. The economists concluded that the long-term rise in the percentage of women working outside the home was hurting beef demand because it put pressure on their ability to cook traditional beef meals at home. Without convenient beef products, the economists said, beef would suffer even more.

Timely checkoff-funded research developed a new chuck cut from the top blade called the Flat Iron. Through this new cut, the industry created value for an item that traditionally had been ground into hamburger. Consumer acceptance of the Flat Iron was positive and widespread.

"The Flat Iron has been highly successful for our restaurants," Cassidy said. "You have to continue giving customers a chance to try something new. Guests are more into experimentation today. Because of (cable TV's) the Food Network, customers have more knowledge about underutilized foods in general. They're more willing to try them in a restaurant and really start to request them."

But the beef industry must look at innovation as a constant process. Otherwise, its efforts will lack sustainability. A further look at Cassidy's experience shows why. Flat Iron prices have risen from \$4.50 per pound to \$6 per pound in one year. That quick a change in price causes foodservice to make quick re-examination and stalls any movement of new cuts into the retail case.

"With all else being equal, if you have a secondary cut and top sirloin both selling for \$6 per pound, you're going to go with the top sirloin," Cassidy said. "The Flat Iron is a great cut, and we had a great year's run with it, but we'd like to see more options."

The industry is working to get more innovations to market. This year, it released the checkoff-developed Petite Shoulder Tender into foodservice. Cheeseburger Fries, a tasty finger food also developed through checkoff research, is available at most Wal-Mart Supercenters. And branded beef companies through their own R&D are introducing innovative new products including time-saving heat-and-serve beef items.

When low-carb diets and the changing face of the workplace created conditions that favored beef, the beef industry was able to respond. And it responded because it had a plan in place through the beef checkoff. That responsiveness will continue to be important as new factors begin to impact beef demand.

Although no one can predict every factor that will impact beef demand, Mintert believes the industry has a better chance of coping if it continues to generate new products that will meet consumers' needs.

"Time savings is very important, but consumers are also in tune to quality," Mintert said. "So now it's got to be a product that not only saves time, but also produces a high quality meal solution that comes close to what consumers could produce in the kitchen if they spent all afternoon cooking it. Consumers want to pick up a meal solution at the grocery store and spend just 20 to 30 minutes getting it on the table. Over the next decade that's something the beef industry needs to pay a lot of attention to." 