

# REBUILDING BEEF DEMAND

BY LARRY STALCUP



**From the fabulous flat iron and savory sierra cuts** to revolutionary round products all aimed at satisfying consumers on a tighter budget, the industry is pursuing new methods of increasing domestic demand for beef. And huge efforts to open wider markets in Asia and other international regions are also helping regain lost U.S. beef sales.

It might be the industry's biggest effort ever to develop and introduce consumers here and abroad to cost-friendly beef products that are tasty, tender and easy to prepare. Checkoff-funded programs are aimed at retail shelves and foodservice menus that are seeing fewer sales of ribeyes and filets and more movement for burger and lower quality beef.

Beef demand was also pressured in 1980s and '90s before starting upward in 1998. The recovery back then followed an aggressive Checkoff-funded effort to promote more case-ready and convenient products and to tout the nutritional value of eating beef and the safeness of beef in the diet.

On a CattleFax-generated index scale with 1998 pegged at 100, wholesale beef demand peaked at 124 in 2004. It hovered above 115 through 2007. That's the same time profitability averaged over \$100 per head five of the nine years, before the

index dropped to 109 in 2008 and to 98 last year.

Unfortunately, the recession that struck nearly everyone the past two years has hampered beef demand. Research by the National Cattlemen's Beef Association shows that two-thirds of consumers are trying to cut back on how much they spend at the supermarket, says John Lundeen, NCBA executive director of market research, who discussed beef demand trends at the NCBA Cattle Industry Convention & Trade Show earlier this year.

Lundeen said NCBA's research shows that "from 30-35% are either cutting back on beef at restaurants or cutting back on high end cuts, 24% are eating fewer steaks and more hamburgers and 20% are buying less expensive cuts of beef."

Demand was also a hot topic for CattleFax analysts at the Convention and was emphasized in its 2010 report. Analyst

Kevin Good said the shift in demand means about \$140/head less than what was received in the higher-demand years. “And we have to remember that in 2009, cattle supplies were tighter,” he noted.

## How Do We Stop The Bleeding?

It won't be easy. “Demand will remain a challenge in 2010 because of the continued slow economy and shifting consumer buying habits,” said Good.

Expect to see loins and ribs still in a slump. But look for lower-priced items, the chucks, rounds and trimmings, to see higher demand. Those types of cuts will be popular not only in the U.S. but also abroad, where the U.S. Meat Export

Federation (USMEF) is continuing to make new inroads.

NCBA efforts to develop new cuts from big portions of the carcass are gaining even more ground.

“We will inspire beef and veal product innovation and facilitate success by bringing information, insight, ideas, science and tools to industry influencers and stakeholders.”

That's the mission statement of NCBA's Beef Innovations Group (BIG), which is charged with developing new beef products that meet the appetite of consumers.

“We're equipped to work one-on-one with any packer, processor or manufacturer actively developing or refining beef and veal products that have the potential to increase demand,” Jim Ethridge, director of NCBA's New Product Industry Partnership, said during his NCBA presentation on innovative beef cuts and new cooking trends. “We help retailers and foodservice operators who want to adopt new beef products in order to improve beef sales and better meet customer needs.”

“Dinosaur” cuts like the chuck roast or blade roast, although still extremely tasty when prepared with that “grandma's” touch, are simply not popular among most consumers, but the flat iron is. It's among the so-called lower quality cuts of beef from the chuck. These new 21st century cuts are prime targets of research by BIG.

Bridget Wasser, NCBA director of product enhancement research, told TCFA that along with the flat iron, there were two new Checkoff-funded products introduced in 2003 from the shoulder clod of the chuck: the petite tender and the ranch cut. “Those have seen some exciting traction and momentum since their launch, particularly the flat iron,” she said.

“Last year in food service (the restaurant industry) we moved 83 million lbs. of flat iron. In the retail sector we moved 14.5 million lbs. That is some very exciting traction.”

In 2008 BIG launched an additional five Checkoff-funded cuts from the chuck, specifically the chuck roll.

They were the Denver cut, the Sierra cut, the chuck-eye or Delmonico steak, the country-style ribs and America's beef roast.

“We've been spreading the word on those cuts to the processors, as well as to the restaurant and retail sectors,” says Wasser. “We're starting to see some new traction for those five cuts. We're really excited.”

## Round 'em Up In 2010

Cuts from the round are on BIG's agenda more in 2010. “We're working on eight different ‘local’ cuts from the round,” says Wasser. “Some of those might be in the steak or roast format for consumers. We will officially launch new Checkoff-funded cuts from the round in August 2010.”

The chuck and round are huge parts of the carcass. The chuck makes up 30%, while the round makes up 23%. That compares to only 10% for the rib and 17% for the loin. Products from the round already in the mix include western grillers and western tips.

BIG sees opportunities to develop more steak options from these “beef value cuts” to provide more options for consumers and foodservice operators, says Ethridge, adding that the chuck and round values have grown to \$50 to \$70 per head since 1998.

The Checkoff-supported BIG website [www.beefinnovationsgroup.com](http://www.beefinnovationsgroup.com) opens up many new avenues for foodservice and retailers to learn about these new products and dozens of recipes for them. They include scrumptious snacks and appetizers to deli beef bites, ethnic minis, mini classics, breakfast bites, “bar” food, hearty snacks, beef-based salads and main dishes like crock pot readies and “flash-in-the-pan” steaks.

“Beef demand is what generates profit. Profit is what is necessary for all parts of the industry to survive,” said Gary Voogt, NCBA's immediate past president. During his Convention address, he also encouraged cattlemen everywhere to support the Checkoff.

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## “Give Me A Pair, Medium Rare,”

unfortunately, is a phrase that isn't heard as much these days in restaurants. Nonetheless, consumers want to eat out and restaurants will play a bigger role in assuring that the most popular and economical meat cuts are available to their customers, according to the National Restaurant Association (NRA).

In its 2010 Restaurant Industry Forecast, NRA reports that restaurant sales are expected to be up 2.3% this year—and many eateries want the newer beef cuts. NRA's analysis



sees trends toward diners ordering the newly fabricated cuts like the Denver steak and petite tender.

Having the right beef products on the menu is a must. In an NRA survey, 65% of adults indicated that their favorite restaurant foods “provide flavor and taste sensations they can’t easily duplicate in their home kitchens.” In other findings from the survey: 44% of adults consider restaurants an essential part of their lifestyle, 40% said buying restaurant, take-out and delivery meals make them more productive and 29% said take-out food is essential to the way they live.

Consumers also look for restaurants that serve locally produced food, said Maureen Ryan, NRA manager of media relations. “About 70% of adults are more likely to visit restaurants that offer locally produced food,” she said, referring to the survey.

James Herring, former TCFA chairman and veteran of many NCBA and Cattlemen’s Beef Board (which administers the Checkoff) committees, said new product development is essential. Herring is now the president of CattleFax and also served on a demand-related panel at the NCBA convention.

“We need to make the platform better for that 24-54 age consumer that’s trying to be conscious about the center of the plate,” said Herring. “We have to make the product better for her, more consistent, more tender, more available. We have to be there for her.”

According to information on BIG’s website, it is vital that the industry continue efforts to provide the unique products desired by various ethnic groups, especially Hispanic Americans. BIG notes that the number of U.S. Hispanics is growing four times faster than any other group in the U.S. with more than 44 million Hispanics, up from 35 million in 2000.

John A. Niemann, Cargill Meat Solutions’ vice president for beef sales and marketing-North America, said multi-cultural consumers are ever-growing in presence and purchasing power. “Hispanic consumers alone will approach \$1.1 trillion, or 11% of the total buying power of the U.S. population,” he said, noting that Cargill has developed and promoted beef cuts aimed at this and other ethnic markets.

Packers are helping lead the charge in rebuilding demand. Retailers, restaurants and consumers dictate to packers the types of products they want on the dinner table. Niemann said Cargill’s major effort to better enhance demand started 8-10 years ago.

“Cargill shifted its focus across our supply chain to producing beef that could be differentiated in the marketplace through eating experience and consumer application,” he said, adding that the program continues today, “making it possible for us to help our customers and their consumers find more convenient and easier to prepare beef products.

“Our branded beef programs have seen double-digit

growth in the past 12 months, proving that a consistent, desirable eating experience backed by a brand promise still matter to today’s penny-wise consumers.”

## Retailers Like The New Cuts

Just ask David Weaber, economic analyst for Delhaize America’s Food Lion, a major supermarket chain. “Many consumers and retailers have traded down to end cuts (chucks, rounds, etc.) to get to a price point thinking that beef needs to compete with pork and chicken,” he said.

“Value propositions are relative between the proteins,” Weaber said. “With this shift, end meats and ground beef have continued to over-perform in terms of their share of carcass

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dollar contribution. As such, we have continued to work to seek the relative value in the carcass and use these items to show consumers value by being able to promote high quality middle cuts at great prices.”

Aggressive pricing is part of the chain’s campaign to keep beef moving through the channel. “Middle meats have been undervalued,” Weaber said. “Retail has been able to feature and promote ribs and loins more often to help increase their movement and make up for the items that foodservice isn’t moving. We provide weekly recipes to go with the ad items and have how-to description and videos on our website [www.foodlion.com](http://www.foodlion.com).”

Food Lion is still working to find broad product acceptance on flat irons. “From a relative price point we can usually promote and sell bone-in ribeyes and bone-in New York strips for the same price as flat irons steaks,” said Weaber.

## Expect More Exports

That’s the upbeat projection from CattleFax. Brett Stuart, also a CattleFax analyst, says beef exports are forecast to increase by 8% this year to 2 billion lbs. That compares to about 500 million lbs. in 2004, when U.S. beef exports were crippled by BSE politics.

Among the leading buyers is Japan, which has increased U.S. beef purchases by 34% the past two years as more age and source verification cattle become available. “As this trend continues, CattleFax forecasts growing beef volumes to Japan,” said Stuart.

Exports can make a significant increase in profits for cattlemen, largely due to the fact foreign countries often desire beef cuts and other items that draw much less interest from American consumers. As examples: short ribs for South Korea,

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tongues and short plate for Japan, outside rounds for Mexico, and liver for countries like Egypt and Russia. According to USMEF, exports enhance the value of a steer or heifer by about \$120 per head.

Jim Peterson, USMEF chairman, said his organization is working with coalitions to obtain further access to world markets. “We are working to gain incremental market access to get us back to where we were in 2003 (about 2.5 billion lbs.)” he said. “That’s what the focus is.”

He stressed that foreign markets present the best opportunity for increasing beef demand and making more beef sales. “The greatest shovel-ready stimulus in the U.S. today is beef and pork exports,” said Peterson. “USMEF is working through 15 offices to put U.S. meat products on international consumer plates.”

Asian countries continue to offer the best beef export opportunities. “The fastest growing economies in the world are in Asia,” he said. “The fast growing economy and largest economy is going to be China. Market access is the name of the game.”

Wesley Batista, president and CEO of JBS and part of the NCBA convention demand panel, said that it’s important to expand U.S. beef sales into China, Russia, India and other countries where the middle-class population is growing.

“We need to keep working to improve demand in these markets,” he said. “It’s been seven years since BSE, and it’s a shame (that markets are still not where they were in 2003).”

Peterson said flexibility is needed in developing trade agreements with individual countries, noting that U.S. government trade negotiators were good in getting the free trade agreement with Korea, which still awaits congressional approval.

“However, the government wants to use that as a model for other trade agreements around the world,” he said. “That simply doesn’t work. Every country is different. Their value systems are different. Their politics are different. Their consumers are different. So it has to be country-by-country, in an incremental step-by-step approach that is customized to each country’s needs.”

Batista said, “It’s unfortunate that the industry needs the government’s involvement (in opening foreign markets). We need to tell Congress how important it is to have greater market access on a case-by-case basis.”

Peterson points out that 95% of world population exists outside the U.S. and their demand for protein is improving. “If we could just get a 30-month-cattle rule, it would be helpful,” said Peterson.

Packers are among those educating foreign and domestic consumers on new cuts of beef available and ways to prepare them. Packers are looking for cattle that will yield cuts that will meet the consumer demand.

“Our cattle procurement teams utilize a

computer program while in the feedyards called Best Buy II as a means of buying the best value in the market,” said Niemann. “By using facts and data, we can provide our cattle buyers and partners in the marketplace immediate feedback on the cattle and how they perform, along with insights on where the cattle end up in terms of branded program offerings. This ensures we are only buying what fit our branded program promises we make to our end-user customers.”

### No Quick Recovery

Weaber said that despite signs we are pulling out of the recession, consumer confidence likely won’t return to 2007 levels within the next year or two. As far as protein demand goes, he says it appears that “even though chicken was the protein that many consumers traded down to it has experienced the greatest decline in true demand.

“To protect beef’s position among the proteins, the industry needs to continue to address the long fought issues of safety, tenderness, positive nutrition message and taste.”

Herring believes that a key to seeing an increase in U.S. beef demand is the ability of different segments of the industry to work as one. “We all have to value and encourage more understanding of various parts of the industry,” he said. “We prevail when we make our customer’s life better. We must be careful to send a product to the consumer that is more consistent, more convenient and more available.”

By remaining committed to developing beef that the consumer wants, Herring said feedyards and feeding companies can achieve better quality and ultimately better profitability. 🐮

EDITOR’S NOTE—Larry Stalcup is an agricultural freelance writer from Amarillo, TX.

