



Executive Summary of September “Think Tank” Sessions

Consumer First Beef Partners™ brought influential industry leaders together in Denver, Colo., Sept. 18-19, for a round-table discussion on beef quality issues. By identifying obstacles to consumer satisfaction, the leaders from each segment of the industry aim to help beef producers focus.

Financial and business concerns were apparent across the U.S. economy, but an opening comment provided context: “This is about growing beef demand. We are not in a crisis situation, but have a great opportunity to move from an already strong position.”

The partners, a consortium of Certified Angus Beef LLC (CAB), Pfizer Animal Health, Land O’ Lakes Purina Feed LLC and *Drovers/food360*, joined forces last February to build bridges between consumers and beef producers.

Participants included Daryl Tatum, Colorado State University (CSU) meat scientist who presented opening and closing remarks; and Randy Blach, CattleFax CEO, who presented market dynamics and moderated the discussion.

Joining in the “Think Tank” were Jim McAdams, Texas rancher and former president of the National Cattlemen’s Beef Association (NCBA); Andy Malcolm, 30-year foodservice industry veteran and vice president of SYSCO Corp.; Mike John, manager of MFA Health Track Beef Alliance and former NCBA president; Charlie Mostek, senior vice president of foodservice sales for Tyson Foods; Dan Murphy, food-industry marketing consultant and author of “The Meat of the Matter;” and Mike Thoren, CEO of Five Rivers Cattle Feeding. David Kent, coordinator of meat procurement for Kroger Co., was unable to attend due to storm damage to company stores.

Defining Beef Quality

The first order of business was a definition of quality. Tatum opened by quoting business consultant Peter Drucker, who said quality “is not what the supplier puts in. It is what the customer gets out and is willing to pay for.”

Tatum reviewed research from Gary Smith (CSU 1984) showing that flavor reaches its peak with consumers at the Modest to Moderately Abundant levels of marbling. Two decades later, W.J. Platter and another CSU team established that consumers are more likely to pay more for beef with superior taste.

Although tenderness is often cited as more important than flavor and juiciness, now that an estimated 96% of beef is acceptable in tenderness, “It has become the price of entry,” Tatum said. Flavor has increased as a relative advantage because competing proteins have lost much of theirs in an effort to achieve greater efficiency.

Post-harvest practices from electrical carcass stimulation to aging further enhance tenderness, but cattle producers can affect other aspects of beef quality. It takes only a slight check on marbling to result in a loss of value to consumers, Tatum said.

Outlook for Beef Quality

A 30-point reduction in marbling in the weekly harvest mix at one plant last year increased Standard and no-rolls from the 2% level to 7%. That is because many grade calls are very near to the deciding line. Similarly, the Choice and Prime level fell from 64% to 49% and premium Choice fell from 21% to 14% of the mix.

Blach cited major factors in the market. For example, corn production costs per acre will rise from \$340 in 2008 to \$1,000 in 2009. The cowherd inventory has seen a 25% decline in 30 years, yet regularly achieves a record output of beef.

Comparing 2008 to '07 finds a 609-million-pound decline in U.S. beef consumption, but per-capita spending for beef is up, and retail beef prices figure to average \$4.25/lb. in 2009, up 10%. Much depends on the global market, where U.S. beef production can grow to a 15-20% export market share if producers hit the quality target most in demand.

Ironically, the drop in beef imports that some producers applaud may accelerate U.S. cowherd liquidation as it bids cull prices higher.

The value shift by subprimals may not last, but the recent trend for middle meat price is flat to down. Chucks are carrying a significantly higher share of the cutout value, owing much to newly promoted cuts. Will the middles track with the economy trendline?

Industry Perspectives

Since packinghouse economies are still driven by dollars per head through the plant, “value cuts” must come from outside the commodity business. Innovative packers will realize the move to greater chuck utilization has barely begun, though the round may offer greater challenges.

Where quality is not a factor—specifically chicken—excess supplies keep a lid on prices of all meat at retail. Slowing down production of chicken does not free up cash as it does in the less-capital-intensive cattle industry.

Growth implants and related technologies are increasingly negative factors in consumer demand. “I have never heard anyone ask for a bigger, tougher steak,” one panelist noted. Such technologies reduce quality grade and create social issues, yet the premium for “natural” calves is inadequate to cover lost opportunity costs. The implant saves \$25 to \$30 per head at the feedlot level, and beta agonists may save that much more – in the near term.

Consumers have an emotional connection to beef that offers upside potential in marketing, but younger consumers are more attuned to social concerns such as animal welfare and “lightning rod” issues such as growth hormones.

Oversized ribeyes have long been a foodservice concern, but those can be overcome with new fabrication styles. Conversely, the industry cannot overcome a loss of marbling, and commodity Choice and Select beef might as well be in the same grade based on consumer satisfaction.

Concerns about sustained demand for value-added beef in a strained economy have some producers looking at more commodity-focused options this year. Signals for quality are more greatly muffled at the cow-calf level. Volume and pounds can override everything else, so that small producers are exiting, their land going out of production.

Higher quality may cost more to produce, but if the margins were increased, the cattle would follow. Greater carcass utilization would likely raise carcass values and pass more back to the ranch. Producers need more help adding value, not just being audited, but real consultation to focus cowherds toward higher quality.

Today's genetics have the ability to grade higher than currently realized, but the industry tends to lower quality grade through management because of economic incentive. A yet unreleased industry survey suggests there is very limited "precision management" at any level.

Only 15% of cow-calf producers see the computer as a valuable tool. In addition to this possible gap in technology use, there is more economic disconnect when the cow-calf supplier has no link to the rest of the chain.

Feedlots that have studied the ratio of employees to cattle find a linear correlation, often justifying the addition of staff. Understaffed or undermanaged feedlots run the risk of not properly reporting calf health issues and treatment, and potential exposure to false advertising in natural beef programs.

Priorities for Putting Consumers First

The group laid out priorities for a consumer-focused beef industry:

- Enhance carcass utilization and product diversification by adding more value to currently underutilized cuts.
- Foster supply chain alignment, from the seedstock and cow-calf through stocker and feedlot operators, packers, purveyors, retail and foodservice segments.
- Identify ways to clarify value communication and other market signals through the better-aligned supply chains.
- Deliver on beef's promise of taste and value, thus earning consumer trust.
- Position and market beef to take advantage of U.S. and global consumer demographic opportunities.
- Identify and promote technologies and processes that add value to consumers while rewarding the supply chains.
- Limit to strategic use those technologies and practices for short-term gain that detract from consumer demand for beef.
- In the face of rising capital requirements, explore cattle financing innovations in aligned supply chains.
- Maintain focus on production and marketing efficiency in all segments of the supply chains.

In summary remarks, Tatum said each participant in the beef supply chain must "keep your eye on the goal" that is consumer demand. To better focus on that target, he said the industry needs more consumer research based on behavior rather than simply opinions.

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