

Beef Demand Prioritization

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The U.S. beef industry is at a critical crossroads. The recent historically tight cattle and beef supplies are shifting as cow-calf producers expand the breeding herd. The industry has enjoyed four consecutive years of aggregate beef demand growth.¹ Combined, tight supplies and strong beef demand led to beef and cattle prices that many never envisioned possible.

Presuming the industry progresses forward increasing the breeding herd leading to larger beef supplies, the persistently critical role beef demand plays in cattle and beef prices will become increasingly clear. If demand continues to grow, an optimistic scenario would be relatively small reductions in prices as expanding beef demand could absorb larger volumes without realizing substantial price declines from current levels. For a variety of reasons, we do not believe beef demand will grow sufficiently in the next few years to fully offset the expected rate of growing supplies - in other words, we expect lower fed cattle and beef prices than recently observed. However, that does not suggest strategies designed to strengthen beef demand are not worthy investments. In fact, striving to grow demand as supplies increase is immensely important to industry profitability.

In a best case scenario, similar to as occurred in 2004, prices could even increase in the presence of supply expansion if demand grows sufficiently to overwhelm production increases. Conversely, price reductions will be substantial if beef demand stagnates, or even worse, falls, as additional beef supplies enter the market. Recognizing beef and cattle prices are directly tied to beef demand strength highlights the importance of fully understanding beef demand and recognizing opportunities for demand enhancing investment prioritization.

¹ To further understand beef demand concepts and obtain estimates of demand indices see:
<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

The purpose of this short factsheet is to utilize current understanding and observed opportunities to sketch out key areas for the industry to use in prioritizing efforts focused on beef demand. The underlying thesis of why beef demand is critically important to industry prosperity rests in the fact that all revenue the cattle and beef industry realizes begins with consumer beef demand.

Bottom-line Opportunities and Priorities

1. Support expanded information regarding demand concepts

Any assessment of available information on beef demand must start by clarifying what beef demand is, and what it is not. Building overall understanding of demand concepts is necessary for informed collective decision making and investment prioritization efforts. Resources listed at the end of this fact sheet can help facilitate translation of demand concepts. To effectively prioritize demand growth strategies requires a well-grounded understanding of what demand is as well as how and why it changes. Once armed with this knowledge, much more informed dialogue can take place to help grow demand.

2. Assess international demand prospects and identify target countries/regions

Attracting new consumers to the market demanding U.S. beef is one of the most effective and rapid ways to build overall demand. Well-documented substantial growth in both populations and incomes in an array of foreign countries underlies a bullish view held by many regarding future global meat protein demand. What is notably less well understood is exactly which countries or regions present the best opportunities for expanded imports of U.S. beef across both short- and longer-term horizons. We strongly recommend concerted efforts be made in first identifying the most fertile markets for international beef export demand growth. Once prime markets are identified, associated strategies to target increased demand in those specific markets should be deployed. This is a complex process because key strategic markets depend on economic, political, and social developments in the targeted markets together with assessment of major global competitors and comparative advantages. The

potential value proposition of this strategy is apparent, but assessing specific target markets is much more challenging and must be done with vigilant analysis.

3. Assess implications of changes in composition of U.S. households

Jacobsen, Mather, and Dupuis (2012) provide a summary of changes in U.S. households over the 1940 to 2010 period. Key adjustments that have occurred include substantial increases in the portion of households with more than one non-family member, single parents with children, and median age at first marriage. Arguably even more important are upcoming changes as Colby and Ortman (2015) project adjustments in the size and composition of the U.S. population from 2014 to 2060. These projections include an increase from 319 million to 417 million residents, by 2030 one in five citizens will be over 65 (vs. 15% in 2014), by 2044 more than half will belong to a minority group (vs. 37% in 2014), and by 2060 almost one in three will be foreign born (vs. 14% in 2014).

The impact these domestic population patterns may have on beef demand is obviously critical. Some related insights are offered by the 2015 Power of Meat report including:

- The effect of age differences is apparent as Millennials place much higher importance on preparation knowledge, time and ease while shoppers over 65 years of age place much more importance on price and appearance.
- The effect of income arises as lower income households are more focused on price while higher income households focus more on nutrition and appearance.
- The role of preparation knowledge has increased substantially in decisions to buy fresh meat. This likely reflects a broader change in the food cooking and preparation habits and skills of today's U.S. residents that is likely impacted by underlying household composition changes.
- The choice of market channel increasingly matters as supercenter meat shoppers place less emphasis on appearance, nutrition, and preparation time/knowledge and extra emphasis on total package price compared with supermarket channel meat shoppers.

The multiple changes in the underlying composition of U.S. households is broadly recognized and only selective examples are included here. What is not well identified is exactly what implications this has for future beef demand. Moreover, what is not thoroughly understood are subsequent implications on what strategies make most sense to position the beef industry to realize beef demand growth given these ongoing population and household composition adjustments. Certainly, positioning the industry and tailoring products to fit highly diverse lifestyles and preferences of modern consumers does not have simple single-dimensional solutions.

4. Improve perceived food safety and product quality profile of U.S. beef

Schroeder, Tonsor, and Mintert (2013) identified *food safety* and *product quality* as two broad beef demand drivers ranking highest in both importance to realized demand and in ability for the industry to influence. Many consumers have lingering doubts or uncertainty regarding beef product food safety. Bacterial contaminations, implications of use of antibiotics in beef production, use of beta agonists, GMOs and the like are influencing consumer perceptions about beef safety. A definite trend in consumer food preference for transparent and genuinely ‘natural’ products is apparent across America. There is a host of information reaching consumers about beef food safety that is confusing and misleading. However, the general consuming public does not have the time or expertise to sort facts from confusing, wrong, or undocumented claims. Such consumer perceptions and preferences are driving major food processors, food retailers, food service, and policy makers to impose major changes in how food, including beef, is produced, processed, and marketed. Helping consumers sort out fact from fiction through very visible information campaigns, being part of the leadership in board rooms as major food companies develop supplier expectations and requirements, and being a leader working with producers to bridge the gap between producer and consumer interests are valuable initiatives.

As recent demand strength in the high-quality branded beef market has demonstrated, there is a sizeable segment of consumers willing to pay for assured fresh, tender, juicy beef products. This segment will continue to be important going forward, but as beef quantity increases, many consumers for whom beef was too expensive in recent years, may re-enter the beef market as retail beef prices decline. The higher the quality of the eating experience these re-entering consumers enjoy, the greater the chance they will

continue to demand beef. We see this as an immense opportunity for the industry to reintroduce beef to many consumers who have reduced their consumption in recent years.

5. *Assess determinants of recent demand strength*

While the industry is currently enjoying a multi-year period of beef demand strength and expansion the underlying drivers for *why* this has occurred are not well established. Understanding if and how determinants of recent demand strength differ from insights offered from assessments of demand patterns in the past could be very instructive in identifying industry direction for beef demand investments going forward. Not only are consumers and consumer perceptions and preferences evolving, so many changes are taking place in beef production, processing, retailing, and food service that what we have learned in the past about beef demand, needs continual reassessment to best adjust demand enhancement strategies going forward.

Final Thoughts

Given the current situation and available information it is useful to step back and identify key areas the industry should place high priority on addressing. These areas are overlapping and not mutually exclusive. Moreover, this list is far from all-inclusive as other opportunities for beef demand understanding, maintenance, and expansion certainly exist and arise over time. Given the persistent situation of more investment alternatives existing than are feasible given constrained industry resources, hopefully this fact sheet will serve as a useful resource in industry investment deliberations.

Resources

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