TFIC NEWSLETTER

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Consumers Expect Terrorist Attacks

Protecting America's food supply from deliberate contamination and preventing the release of chemical or biological agents in crowded public areas are the nation's highest priority anti-terrorism activities according to results from a national survey of Americans over the age of 16 conducted in the first week of August 2005. The survey, conducted by The Food Industry Center and funded by the National Center for Food Protection and Defense, asked respondents how likely they believed different types of terrorist attacks to be. In addition, they were asked how anti-terrorist spending should be allocated among potential targets. The terrorist acts covered by the survey were another aircraft hijacking, an incident involving some other form of public transportation, destruction of a national monument, deliberate contamination of the food supply, disruption of the power grid, and release of a chemical or biological agent in a public area.

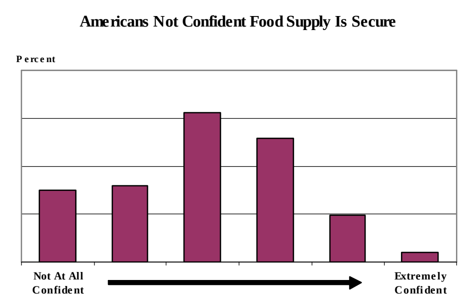
Ninety-Eight Percent of Adult Americans Expect Further Terrorist Attacks During Their Lifetime. Trains or subways were thought to be the most likely target for another attack. More than 85 percent believe such an attack will occur in the next four years. Even though they thought an attack on the food system was less likely than an attack on transportation, Americans are in agreement that protecting the food supply chain and preventing the release of a chemical or biological agent in a public area are the anti-terrorist activities deserving the most funding.

Differences in Demographic Characteristics had only a small effect on opinions about where anti-terrorist spending should be directed. There was broad agreement among ethnic groups that protecting national monuments was not as important as protecting airlines from hijacking. The largest differences were between individuals living in the Mountain States who would allocate somewhat more to protecting national monuments while those living in the South Atlantic States would allocate less.

Most consumers would allocate less to protecting the nation's power grid from disruption by terrorists than to securing air travel. For example, individuals over the age of 65 would allocate more and those under the age of 40 would allocate less. Blacks and Hispanics would allocate less to the electrical grid than airways while whites would spend almost the same amount.

Allocating funds to protecting the food supply chain and preventing the release of a chemical or biological agent in a public area were deemed to deserve the most funding, but there were distinct differences across racial and ethnic groups. White, non-Hispanics allocated more to protecting the food supply than Blacks and Hispanics. The spending ratios for defense of the food system and defending against a chemical or biological attack increased with education and age, but there was no distinct pattern with respect to income.

When asked specifically how confident they were that America's food supply is secure against terrorism, almost one-third were not very confident at all. The distribution of these responses is illustrated on the graph below:



Spending to Defend the Food System
In fiscal year 2005, the enacted level of spending for homeland security by all federal agencies, outside of the Department of Defense, was $37 billion. A total of 33 agencies have a direct role in federal homeland security programs. Four agencies—the Departments of Homeland Security, Health and Human Services, Justice, and Energy—account for more than 89 percent of this budget in fiscal year 2005. The Transportation Security Administration (TSA), which provides airport passenger and luggage screening, received about $5 billion in fiscal 2005, about 10 percent of all federal homeland security funding. Findings of this survey indicate that the U.S. public would allocate more than the TSA budget to protect the food supply.

The official report of this research has yet to be released. It includes important public policy messages and speaks volumes about the levels of latent fear among people who are learning to live with the idea of potential terrorism. Food is a very personal vital good in their lives. They want it to be safe.

The faculty and staff working on this project are Jean Kinsey, Tom Stinson, Dennis Degeneffe, and Koel Ghosh. Visit our web site in the coming months for the official reports of this survey.
http://foodindistrycenter.umn.edu

Upcoming Events

Program Leadership Board Meeting
March 31, 2006

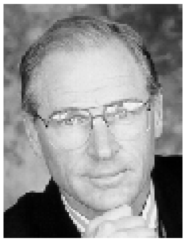
Houck Lecture on Food & Consumer Policy
May 16, 2006
Speaker: Juan Enriquez-Cabot
Harvard Business School Life Sciences

CO-DIRECTORS' NOTEBOOK

This newsletter marks a milestone for The Food Industry Center. The Alfred P. Sloan Foundation funded us for the last decade with three separate grants to build and expand the Center's activities. Like every parent they expected us to develop our own sources of funding as we matured and moved forward. The good news is that we have a three pronged strategy to financially sustain the work of the Center.

Research Grants: First, in the past two years our faculty and staff have been successful in attracting more than a million dollars in federally funded research grants and other foundation grants. The research topics addressed with these grants relate to food (homeland) security, food access for the poor, women's eating patterns and obesity, healthy school lunches, and tabulating per capita food consumption.

Board of Trustees: Second, under the leadership Rick Schnieders of SYSCO, John Johnson of CHS, and Jeff Noddle of SUPERVALU we now have thirteen companies or organizations who are charter sponsoring members of TFIC. We are grateful for their support and advice and look forward to providing them and others with informed and neutral discussion forums as well as the next generation of industry leaders. (A list of the charter members can be found on our web site at http://foodindustrycenter.umn.edu/sponsoring_members.) Under this new funding model, our goal is to grow the number of Center sponsors and sustain their annual membership.



Development Officer: Last, but far from least, is the hiring of a new Development Officer in the University of Minnesota Foundation who will work closely with TFIC and the College of Agricultural, Food, and Environmental Sciences to grow and sustain sponsoring memberships and develop endowment funds for the future of the Center. Funding for the first three years of this development work has been provided by the Sloan Foundation and the College.

We are pleased to introduce our new Development Officer, **Rand Park**. He is moving into his office January 3, 2006 in the Classroom Office Building on the St. Paul Campus where he will work closely with TFIC faculty and staff. Rand brings with him incredible enthusiasm and considerable experience. He comes from Hamline University where he was the Founding Director of the Hamline University Minneapolis Center and the Director of the Master of Arts in Management program. He has also held positions at RBC Dain Rauscher and Thomson West. From 1997 through 2002 he served on the Board of Directors of HealthPartners, Inc. Rand has Bachelor's and Master's degrees from the University of Georgia and is a graduate of Hamline University School of Law. We welcome Rand and look forward to working with him in our second decade as a Sloan Industry Study Center.

Per Capita Consumption of Food: Six Pounds of Celery per Year?

In August, Jon Seltzer and Ben Senauer, from The Food Industry Center, visited the Salinas Valley of California (known as the nation's salad bowl) during a celery harvest. They saw a line of about a dozen men moving down the rows cutting the celery off at the butt and also topping it to the appropriate length. The rows had been irrigated only a few days before so the celery would be well hydrated for shipment. Behind them was a large tracked harvesting machine crawling slowly along. It had a long stainless tray in front onto which the men tossed the cut celery. The tray was being continuously sprayed with chlorinated water to clean the celery. Behind the tray were about a dozen women who sorted and washed the celery under the spray; then slipped the stalks into plastic sleeves. It was then placed directly into the shipping cartons. The celery you purchase in the supermarket is packed directly in the field and is sent to the packing house only to be chilled for shipment. They were packing celery for three different retail customers, including Kroger's and Trader Joe's, each with somewhat different specifications.

Since September 2004, The Food Industry Center has been gathering data for a Cooperative Agreement with the Economic Research Service of the U.S. Department of Agriculture to gather the conversion or yield factors of specified agricultural products. An estimate is translated into the supply of finished products available at the retail level and the average U. S. per capita consumption. In order to make this calculation, the USDA relies on conversion factors that reflect the yield or percentage of the raw commodity that ends up as a consumer product at the retail level. For example, for celery stalks some 95 percent reaches the retail stores. On average, five percent is lost due to dehydration, losses during shipment, and rejection by the wholesaler or retailer for sub-par quality. On the other hand, for bagged, sliced celery pieces, the conversion factor from raw to consumer product is only 45 percent.

This widely used USDA data series of product specific conversion or yield factors play a crucial role in the calculation of food availability and per capita consumption. From the data being collected, the average per person nutrients available in the U. S. food supply can be calculated. The data also plays an important role in determining federal policy for food and agricultural markets, human health, and nutrition.

The most recent analysis and documentation of conversion factors was done by USDA in 1992. Many of these conversion factors have not been substantially updated since the 1960s; further back for some. Since this time, much has changed in terms

(continued on page 4)

Program Leadership Board Update: Advancing Agendas on TFIC Strategic Initiatives

The fall 2005 Program Leadership Board Meeting was held October 15th at the McNamara Alumni Center. The meeting included a **Center update** and progress summaries on our six research grants (see the TFIC website for more information on our current grants at http://foodindustrycenter.umn.edu/Research_Initiatives.html).

The balance of the meeting involved committee breakout sessions on the Center's three key strategic initiatives ***Healthy Food, Healthy Business; Food System Security; and Food Industry Academic Program Development***.

Particular emphasis was placed on the Academic Program Development initiative in order to conceptualize and obtain input for a **Food Industry Certificate Program**. Several students who recently graduated from the University of Minnesota and are working in the food industry joined the discussion. The Certificate would be issued by our sponsors. Its purpose would be to help: 1) attract some of the best students into careers in the food industry, 2) prepare students for careers in the industry, and 3) identify those students who are best prepared for careers in the industry. There was strong agreement that an appropriate internship should be a requirement of the certification program. There was further discussion on which courses might be included in the program and consideration toward required and optional courses for the certificate. In addition, a minimum GPA would probably be required to enter the certificate program. This input will be used by the Center a to develop a program proposal that will be reviewed in our next PLB Meeting.

What's for Dinner? Prep-and-Take.

Take-away has long been a staple of many restaurants and is growing with easier ordering and special pick-up parking. The growing share of consumer spending for food at restaurants and other foodservice venues, at the expense of supermarkets, has spurred new product introductions throughout food stores with more refrigerated, frozen, and deli case options. In addition, both restaurants and supermarkets have tried different home delivery options. Still, new concepts and formats within the two channels continue to evolve and **a new channel, prep-and-take,** is emerging.

Prep-and-take invites customers to set an appointment to spend about two hours moving through different preparation or portioning stations assembling components for meals they take home. Rather than walking a supermarket aisle or looking at a restaurant menu to see "What's for dinner?" the customer selects the meals they will be preparing and fixes them to their households' tastes. The recipes and meals are provided by the prep-and-take store. Customers go home with freezer bags full of the ingredients that will be frozen and stored for future preparation. Each bag will contain just enough food for the members of the household (or one person) for one meal.

Generally less than two years old, prep-and-take companies include: *Let's Dish, Dream Dinners, Supper Thyme, Mix It Up, Dinner Tonight, Dinner Time, Dinner Station* and others. Most operate one or more corporate stores and are expanding with franchises.

Prep-and-take provides consumers with an alternative to food-away-from-home and food-at-home. This new channel has an expanded value proposition and comes with a different cost structure than the other channels. The prep-and-take value proposition seeks to balance convenience, price, and variety. The convenience comes from spending a predetermined scheduled period of time with potentially new, but tested, recipes "customized" for a household's preferences (heavy pepper, extra mushrooms and no onions). The meal's planning and search tasks are provided by the prep-and-take operator and the experience is often pre-paid by the customer. Price are determined by the operator's ability to develop, consumer-test, and cost recipes and then purchase the needed portions of food in commercial quantities from foodservice distributors. At the same time there is an affiliation and fulfillment dimension.

For a nation that "does not cook," the fulfillment and satisfaction of preparing a "new restaurant quality" dish at home is very important. The prep-and-take experience provides both the portioned ingredients and needed instruction. In addition, unlike the conventional shopping trip, done in isolation with reluctant children in tow and sandwiched in between work, after-school and other activities, prep-and-take is a destination trip and is an opportunity for a group; book-club, PTA or work unit to sign up and portion together.

As a destination trip, visibility from the street and adjacent tenants are not as great as for convenience oriented channels. Build out costs are less than a traditional store or restaurant as are equipment costs, refrigerated/ freezer storage, prep tables and hand washing and sanitation. In addition, the ability to purchase and consume inventory at the same time, and even after receiving customer payment, reduces food cost and improves cash-flow. Furthermore, the reservation system for prep-and-take, usually internet based, provides a more complete "customer spotting" than most supermarkets or restaurants can ever imagine.

Similar to many other businesses, "it may be simple, but it is not easy," execution will determine the success or failure of individual prep-and-take competitors and operators. In addition, and perhaps more importantly, prep-and-take will continue to evolve: how much variety will consumers want and how quickly will the concept segment (organic, diet, etc.)? Will supermarkets and restaurants develop their own prep-and-take concepts, and will schools, culinary schools, churches and other organizations with commercial kitchens enter the channel? At this point there may be more questions than answers; but this is a concept to watch.

DID YOU KNOW?

Shoplifting/Theft:
A major concern to retailers and consumers alike is the cost of shoplifting and theft in the retail food store. Somewhere around a million shoplifting/theft incidents occur every day in retail stores for a daily loss of $26-$36 million dollars. Employee theft is a major cause of loss. The two largest types of losses in each of three categories - in percentage terms -are: Location of Theft - Cashier station(42%) and Sales/service area (25%); Most frequent item shoplifted – Health and Beauty Aids(20%) and Meat (18%); Types of employee theft – Cash (24%) and Merchandise (22%). (Source, FMI, *Advantage*, Jan. 2004 p. 52-54.)

Salt Limits?
The United Kingdom is establishing targets for salt consumption of 6 grams per day by 2010. They are also consulting on target (maximum) levels for specific food categories. Key product categories under consideration for special target levels are sausages, crisps, pizza, bought sandwiches, ready meals, soup, cereal, bread, cheese and table sauces. (See www.food.gov.uk.multimedia/pdfs/howsalttargetsmet.pdf) In the U.S., the new Dietary Guidelines recommend 2400 milligrams of sodium (which also equals 6 grams of salt) per day for adults. (See: www.mypyramid.com).

Bioterrorism Act in Force Dec. 12, 2005
Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act) requires domestic and foreign facilities that manufacture, process, pack, or hold food for consumption in the United States to register with the U.S. Food and Drug Administration (FDA) by December 12, 2003. The final rule requires food firms to establish and maintain records that would allow FDA to conduct an effective and efficient traceback investigation to protect the U.S. human food and animal feed supply, in the event the agency has a reasonable belief that an article of food is adulterated and poses a threat of serious adverse health consequences or death to humans or animals. More information about each rule may be found on FDA's website at www.fda.gov under the "Bioterrorism Act" link.

Private Labels:
Is the store the brand? In the seven years before 2004, store brand (private labels) sales grew at more than twice the rate of national name brand sales and now account for 15% of packaged goods revenue. The types of food most likely to have a private label are milk, cheese and eggs as well as paper products. (Adamy, Wall Street Journal, 11/21/05).

Hunger in America:
USDA finds that 38 million Americans including 14 million children are at risk of hunger. Food shelves are one place they often go for food. At least one-quarter of supermarkets survey by FMI said they donated more than 1 million pounds of food annually to food shelves. This is enough for at least 800,000 meals. More than half of the stores donated at least 100,000 pounds annually. Perishable donations are increasing as food banks seek more protein- and nutrient-rich foods. Baked goods donations are up 71%, produce up 51%, dairy products up 44%, deli items up 22% and fresh meat up 33%. http://www.fmi.org/media/mediatext.cfm?id=778

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of the form in which products are made available to consumers, such as bagged salads and boneless/skinless chicken breasts, plus more product is moving through the food service channel. The USDA maintains an annual data series dating back to the early 1900s for many crops.

The now smaller ERS has been able to maintain the necessary contacts required to update and revise the conversion factors in a timely manner by working with The Food Industry Center to update the conversion factors and establish a user friendly website to hold the collected data. The cooperation of industry is vital if the Center is going to develop and maintain accurate conversion factors.

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