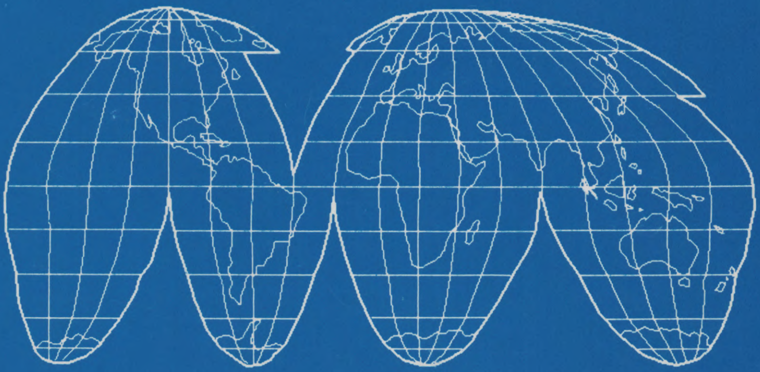
Commodity Promotion Policy



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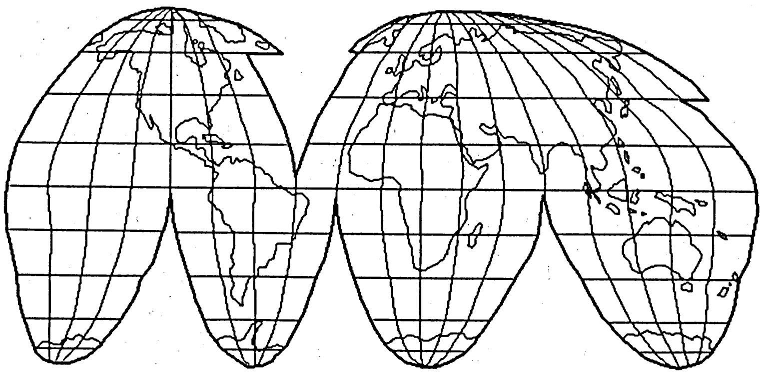

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PERSPECTIVES ON COMMODITY PROMOTION POLICY ISSUES

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National Live Stock and Meat Board

A common marketing phrase we hear a lot today is "strategic marketing alliances." That is when two or more competing firms or products come together in a marketing arrangement that is mutually advantageous. One surprising alliance is IBM and Apple working together on the next generation of personal computers. In that sense the National Live Stock and Meat Board is a 70-year-old strategic consumer marketing alliance of beef, veal, pork and lamb.

As a domestic commodity marketing group, the Meat Board has no individual memberships and no governmental affairs or trade policy responsibilities for the industry.

The Meat Board was the first organization in American agriculture to be funded by what is today commonly called "the checkoff." In 1922 when the Meat Board was chartered, the checkoff rate was 5 cents per carload of livestock, voluntarily deducted by packers and commission firms from producer receipts. Cooperating meat packers voluntarily matched the producer 5 cents per carload.

Although each species' checkoff has evolved differently from an organizational perspective, the Meat Board continues to be funded through industry checkoffs and today shares in the Beef Board's one dollar per head checkoff and the Pork Board's checkoff of 35 cents per hundred dollar of value.

It has been our experience that producers will pool or leverage beef, veal, pork and lamb dollars if it makes market and economic sense to do so. For us, those marketing programs are primarily research, information and education oriented.

The Meat Board board of directors includes livestock producers, feeders, packers, processors, importers, foodservice operators and retailers. However, 92 percent are investor directors—livestock producers and packers—who finance the program. All Meat Board committees must have a majority of investor directors as members. The policy is obvious—those who pay govern. Nevertheless, all directors have a vote. The hands-on experience of purveyor-retailer-foodservice operators and others is helpful to producers and staff in program development, implementation and evaluation.

Promoting Competing Commodities

At the Meat Board, our marketing philosophy for the daily competitors of beef, veal, pork and lamb is to work together through research, education and information programs to enhance the overall marketing environment and consumer acceptance for meat and meat products. Then beef is as aggressive as possible through our Beef Industry Council and the federation of forty-four state beef councils. Likewise, aggressive pork marketing is encouraged through our Pork Industry Group, lamb through our Lamb Committee and veal through our Veal Committee. Each species also works closely with appropriate allied organizations such as the National Pork Producers Council and others.

The bottom line—increased market share for meat—a bigger share of the "center-of-the-plate."

This marketing philosophy is not unique to the Meat Board. It is similar to many consumer products companies such as General Motors. They promote the "GM seal of excellence" to create a favorable market environment for all General Motors products. Then, under the GM banner, Chevrolet, Oldsmobile, Buick and Pontiac aggressively compete against each other. General Motors' goal: to earn a bigger share of the car market. In the same way, we work together and separately at the Meat Board seeking a larger market share and increased profit opportunities for meat.

We have learned that beef-pork-lamb checkoff dollars can be leveraged together provided we account for checkoff dollars by species. At the Meat Board, about 20 percent of our program dollars is leveraged. For some time we have accounted for all checkoff dollars by species, state of origin and source of investment—producer or packer.

What policy do we follow in equitably financing a meat program? If, for example, we conduct a $100,000 study of cholesterol in the human diet—important to all meat products—it would be financed on a market share basis.

Thus, our Beef Industry Council would pay $61,000, the Pork Industry Group $37,000 and the Lamb and Veal Committees each $1,000.

Why? Because beef is 61 percent of a three-year average of total meat production while pork is 37 percent and lamb and veal each 1 percent.

In addition to research programs, education programs developed to fit existing school curricula are a popular area in which to leverage species dollars in our marketing plan. Credibility of the message with teachers is often enhanced when we offer lesson plans including a meat or food approach. It appears less commercial. For instance, one of our education programs called *Munchsters* fits a preschool language arts curriculum while delivering our nutrition/cookery message. *History Matters*, a supplement to the senior high history curriculum, includes our animal welfare message.

By working together, the cost of production and distribution is reduced and the probability of placing the teaching kits is increased, compared to similar efforts undertaken by individual species.

In my opinion, competing commodities can work effectively and efficiently together in marketing functions of research, education and information provided their self-interests are acknowledged and the project leader remains accountable for checkoff dollars by commodity.

Research vs. Promotion

It has always been our philosophy at the Meat Board that research and promotion are complementary. Research has been, and is today, the cornerstone of Meat Board programs.

The late Herrell DeGraff, then with Cornell University, said it best in a 1962 report to the Meat Board directorate: "A successful promotion effort cannot function in a vacuum. It needs facts carefully developed and so firmly grounded in scientific truth that they will be persuasive when presented to thought leaders and a discriminating public."

The first project funded by checkoff dollars in 1924 was a research project at the University of Rochester under the direction of Dr. George Whipple. It dealt with the relation of meat and meat products to blood regeneration. This study, which revealed the unique contribution of liver in the treatment of anemia, changed the public attitude toward liver and won a Nobel Prize for Dr. Whipple. The increased value of the annual liver production alone is more than the total checkoff dollars invested by producers and packers in the Meat Board during our 70 years.

Under an ideal scenario, new information and new products are developed through research. Then "transfer of technology" happens through information programs to the trade, retail and foodservice promotion and advertising. Market research helps identify the best message, the best methods for delivering that message to consumers and then the best methods for evaluating results.

In our shop, a high priority for the product and nutrition research groups has been the new nutritional profiles for today's lean beef, pork and lamb. That has been done and the data was used in updating the U.S. Department of Agriculture (USDA) *Handbook-8*, the bible for nutrition thought leaders.

That same research is the information source for many of our new education materials and for the print ads used in the "Beef. Real

Food for Real People" campaign targeted toward the moderate, occasional and light users of beef and beef products.

During the four years of that campaign, our market research showed we were making progress with attitudes about lean beef among our target audiences. At the same time, behavioral tracking studies confirmed the industry was losing one beef "eating occasion" in a two-week period among our heavy and moderate users which represented 86 percent of total beef tonnage.

Although the beef industry was enjoying some success with the "Real Food" campaign, it was the behavior research findings that motivated the industry to redefine its target audience and reposition its message.

"Beef. It's What's for Dinner" appeals to the more frequent users of beef. The ads communicate beef's variety and ease of preparation while information programs emphasize a "health reassurance" message about beef and meat.

A good marketing plan should not be research *versus* promotion. It should be research *supporting* promotion by identifying the message and evaluating the results.

Ronald Ward's work at the University of Florida is an important tool in overall evaluation and tracking of the 5-to-1 return on investment of the beef checkoff.

More difficult research policy questions for us are: How many resources should be allocated to research versus promotion? On what basis? Should checkoff programs pay overhead at tax-supported universities? Should checkoff dollars be used for production research? Should checkoff dollars be used to replace shrinking tax dollars available for research?

Branded Products and Commodity Promotion

There have been several discussions about the role of private firms and branded products in commodity promotion programs that are funded by checkoff dollars. It is our belief that the meat industry must continue to initiate partnerships with foodservice operators and retailers. We are not going to sell more product to consumers without working with and through the retail and foodservice marketing channels.

The difficulty seems to be in the definition of terms. What is a branded product? In simple terms, I believe a product is branded when it carries a label of a food processor and that label is promoted by the processor. In my opinion, food products such as Safeway Beef or Marriott Steaks should *not* be considered branded just because they are identified with the name of a food retailer or foodservice operator in the distribution channels.

If promotion policy classifies such products as branded, it greatly discourages the industry from initiating a partner orientation with foodservice and retail players. Beef or pork checkoff dollars can be used in branded product promotion with board and Secretary of Agriculture approval.

In the first year of the dollar checkoff, five research centers were contracted to develop a 90 percent or leaner hamburger that would have the same eating qualities as the traditional burger.

Research findings were used by McDonald's, ConAgra and Hardee's to introduce new low fat ground beef products.

McDonald's asked the beef industry to cooperate in introducing the McLean Deluxe sandwich. McLean Deluxe was designated a branded product and a majority on the Beef Board Executive Committee chose not to cooperate financially with McDonald's. The Beef Industry Council used some non-checkoff dollars to assist financially and extended McDonald's introduction in print advertising.

McDonald's, in a one-month period with a $30 million promotion, made most Americans aware of a new low fat ground beef product. The beef checkoff alone could never have accomplished such a high consumer awareness of a new product.

Many other retailers and companies took advantage of the increased consumer awareness in introducing their low fat burgers.

Granted, the low fat ground beef products are having mixed success. The exciting part for the beef industry today is that their research checkoff dollars have been a catalyst in getting the largest food companies in America, like McDonald's and ConAgra, to invest their own research and development dollars in pursuit of the perfect low fat beef burger.

That is the ideal way for checkoff dollars to work and underscores why it is important for commodity groups to work with private firms. It may take longer than we like, but I am confident the ideal low fat burger will be developed. Just think how long it took Coca-Cola to go from Tab, their first low calorie soda, to the highly successful and popular Diet Coke. The Beef Board has since approved several programs that allow the checkoff to support branded beef products.

I believe commodity promotion policy must encourage partnering with private firms, especially retailers and foodservice operators in the distribution channels. Policy that restricts such activity restricts checkoff programs from reaching their potential in selling more product and enhancing the profit opportunities for the industry.

Federal Oversight

Federal oversight—or USDA oversight—for legislative-authorized programs is a plus provided there is flexibility to accommodate the uniqueness of various commodities and provided the industry exercises its responsibilities in managing checkoff resources. If industry is delinquent in managing its programs, then Congress may be pressured into increasing the authority of the federal government over checkoff programs or moving to standardize all checkoff structures and policies. In my opinion, that would be a mistake. It would weaken grassroots support of checkoff programs.

The beef industry has such an issue today in the "perceived conflict of interest" with the Operating Committee.

Since the Beef Industry Council is the federation of forty-four state councils, it elects half of the producers to the Beef Promotion Operating Committee. Because the Beef Industry Council is a primary contractor, some believe this is a "conflict of interest."

What is often overlooked in these discussions is that the forty-four state beef councils and the Beef Industry Council of the Meat Board are not trade organizations. They, like the Beef Board, are consumer marketing organizations and have no governmental affairs responsibilities.

When the industry was working with Congress to draft the Beef Promotion and Research Bill, a subtitle of the 1985 Farm Act, they had the benefit of market research, conducted by the Doane's Agricultural Service, about cattlemen's beliefs about checkoff programs. On the basis of those findings, they designed a checkoff system through which the dollars are collected by the state beef councils—one per state—and qualified by the Beef Board. Qualified state councils may retain up to 50 cents and must forward at least 50 cents to the Beef Board.

The state beef councils, which have been part of the Beef Industry Council federation since 1963, continue to invest part of their in-state 50-cent collection in the Beef Industry Council. The Beef Industry Council also contracts with the Operating Committee in the areas of promotion, research and consumer information.

In drafting the bill with Congress, the industry committee included the Operating Committee in the act and order as a means of coordinating, into a unified marketing effort, the existing organization structure of the Meat Board's Beef Industry Council and the forty-four state councils with the new Beef Board. That has been the case since the dollar checkoff started in 1986 and it is getting stronger each year through the Beef Board's long range and annual marketing plans.

Nonetheless, there has been recent concern about the "perceived conflict of interest." None of the cattlemen, dairymen or importers serving on the Operating Committee receive compensation. Nothing can pass the Operating Committee without a two-thirds majority and at least fifteen members must be present for a quorum. The Operating Committee contracts for programs within the budget as approved by the Beef Board. All contracts approved by the Operating Committee must also be approved by USDA.

Obviously the USDA is satisfied there is no "conflict of interest" or they would not approve program contracts. The Operating Committee is structured and operating as envisioned in the legislative report that accompanied the Food Security Act of 1985.

I quote from that House Agriculture Committee Report: "The Operating Committee is responsible for developing the plans and projects and monitoring the activities carried out pursuant to the approved contracts. The Board is responsible for the review and action upon the budgets and plans developed by the Operating Committee. The Secretary's responsibilities include budget review and overseeing contractual arrangements of the Operating Committee. With Board and Secretary approval of budgets and programs, this structure assists in preventing conflict of interest." The report goes on to say, "In addition, this procedure should provide for effective coordination and cooperation between the Board and industry organizations."

So, in this particular case, the federal oversight of the beef checkoff helps assure the industry there is no real conflict of interest.

I believe for commodity promotion programs to be effective they must have the necessary policies and authority to develop strategic marketing alliances with competing products when it is mutually advantageous. A promotion program that is research driven with the ability to work with private companies and branded products is most effective and cost efficient in building consumer demand and moving more products. Finally, federal oversight of legislated checkoff programs helps assure fair play for all industry investors.