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ECONOMIC ANALYSIS OF MEAT PROMOTION

PROCEEDINGS FROM THE NEC-63 CONFERENCE

Adam's Mark Hotel
Denver, Colorado

June 2 - 3, 1995

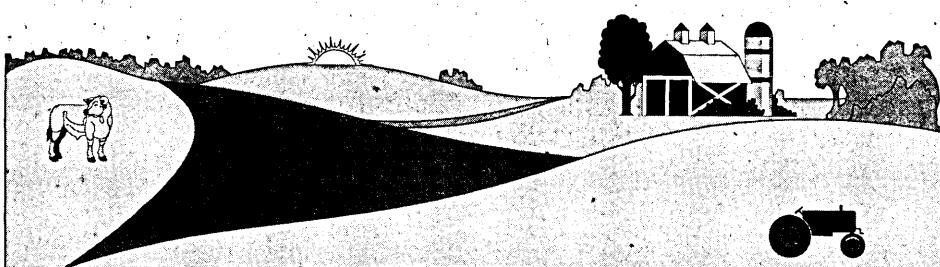
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STRUCTURAL CHANGES IN THE U.S. BEEF PROMOTION INDUSTRY

Bruce B. Berven

It is quite timely that you would ask someone in the beef industry for observations on the institutional relationships in the commodity promotion industry. Many of you may be aware that for the last year and a half, the beef industry has been working on proposals to reorganize and consolidate several of its major industry organizations. It now appears that the consolidation will come to fruition in early 1996. To be more specific, the organizations I am referring to are: the National Cattlemen's Association, the Beef Industry Council of the National Livestock and Meat Board, the Cattlemen's Beef Board and the U.S. Meat Export Federation.

Why is this occurring? To allow for better focus, coordination, cost-effectiveness and control of resources, including the \$80 million Beef Checkoff Program. As background, perhaps a quick review would be in order.

Over two years ago, the beef industry appointed a Long Range Planning Task Force to develop a single industry plan. Prior to this time, each organization had a plan of its own -- that means four separate organizations with four individual plans.

The task force met for months and called in experts, not only from all segments of the beef industry, but also from other protein-source competitors, including pork and poultry. They identified eight key leverage points or objectives that the beef industry must address in order to halt the significant decline in market share that has occurred over the past several years. Although I don't have time to detail the industry's plan, I want to emphasize its importance, because of it for the first time the beef industry has one blueprint -- one roadmap for the future.

After completing its work, the Long Range Planning Task Force asked itself the following question, "Can we achieve the objectives in the plan with our major industry organizations structured as they are?" Their answer, "No!" Thus, work began on the plan of consolidation which, in its final form, brings the current National Cattlemen's Association and National Livestock and Meat Board together in a new organization. The Beef Board will remain separate for legal reasons, but will participate fully in the checkoff committees and planning functions of the new organization. The U.S. Meat Export Federation will also remain separate, but will contract with and through the new organization to conduct checkoff-funded foreign market development programs.

With that as a background, let me move to the four questions I was asked to address. First, what specific benefits can be derived from a closer relationship between promotion organizations and trade associations, both to the industry and to the consumer? From an industry standpoint, we can dispose of our "island mentality" in which the policy issues funded primarily by member dues dollars, and marketing and research programs funded primarily by checkoff dollars, are dealt with by separate boards meeting in separate locations. As much as we have tried to coordinate and communicate, this separateness has become an obstacle. Frankly, an inherent competitiveness for resources, consciously and unconsciously, limits information sharing and the effectiveness of programs. That's not to say that our programs haven't benefitted the industry. They have. But they could be improved and they could be more efficient -- if coordinated.

In the new organization, for the first time in beef industry history, one group of decision makers can come together and deal with the entire industry's strengths and weaknesses. In addition, not just beef producers in the traditional sense will participate. Packers, purveyors, retailers, etc. are envisioned as key players in the new organization. The dairy and veal segments will also participate and have been involved in planning the implementation of the new structure.

The second part of that question was, what costs to the consumer might be incurred because of this closer relationship? Very few, if any. I see the consumer as the recipient of additional benefits. If I can digress for a minute and refer back to the Long Range Planning Task Force, one of that group's main findings was that the industry had been inwardly focused, not consumer driven for far too long. The Long Range Plan that will be the roadmap for the new organization will have a consumer focus. Developing more consumer-friendly products with the high quality and consistency that consumers demand will be given a higher priority. We'll be better able to provide consumers with what they want, not just with what we have.

I'd be remiss not to mention that one of our eight leverage points addresses production efficiency. We need to be able to produce beef more efficiently. If successful, some of the cost-savings will undoubtedly be passed along to consumers.

You also asked if there is potential for conflict between the lobbying purpose of trade associations and the prohibition on lobbying for commodity promotion organizations. That question was a major industry "political issue" which became quite an obstacle in our beef industry organizational restructuring. The prohibition on lobbying has tended to keep beef industry organizations separate, which again, leads to duplication of effort and the other inefficiency problems already mentioned.

In the beef industry, at both the national and state levels, we have demonstrated time and time again that these functions need not conflict or become legal barriers. Today's sophisticated accounting procedures, coupled with time record keeping, allows us to equitably allocate resources and track funds while maintaining the separateness required by law.

As an additional safeguard, the new beef organization will have what we call a "seamed" Board of Governors and Executive Committee. All will participate in the discussions, but each segment of the Board will vote only on the specific issues assigned to it -- either dues or checkoff.

Your final talking point request related to strategic planning enhancement and the role of economic analysis in helping evaluate alternative allocations of funds. It is quite obvious, I believe, that the industry's strategic planning can be enhanced by having the best and brightest minds involved in planning for only one organization.

The Beef Board has utilized Dr. Ward's econometric model in assessing the impact of the checkoff. We know that the checkoff programs' overall effect is a \$5.40 return for each dollar invested. What we don't know, is the exact return on investment of an advertising campaign versus a foreign marketing project versus food safety research versus a youth education activity.

I see a need for this type of analysis. Your assistance in identifying needs and evaluating the effectiveness of programs could help as we attempt to assess the return on investment, program area by program area. The Beef Board, in my opinion, has taken a leadership role in emphasizing the evaluation of programs. We try to measure results, not just activities -- and, as such, have eliminated certain projects.

Producers in the beef industry provide a significant amount of financial resources through their checkoff and dues investments. They determine how to invest their resources based upon the available information. They resent the Center for Science in the Public Interest telling them to reduce their advertising budget and spend 75% of their dollars on research. We must remember that

producers fund the programs they determine are industry priorities. That is one of the key successes in the Beef Checkoff Program. It's a program driven by producers, for producers.

Let me conclude by saying that there is a high level of producer support for the Long Range Plan and consolidation proposal. The business-minded cattlemen out there know that it just makes sense.