

Retail and Foodservice Marketing Trends for Beef

Characterizing how the economic recession and increase in cattle grading Choice and Prime have changed how beef is marketed at retail and foodservice.

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Executive Summary

Changes in the U.S. economy, during the recession and its aftermath, have had a significant impact on beef consumers' ideas about the importance of value and quality. As beef industry continues to place greater emphasis on end-user need and desires, it's become increasingly important to recognize these consumer desires and trends both at the foodservice and retail level. The beef industry has responded to the growing desire for high-quality beef through genetic improvement and breeding changes designed to increase the percentage of cattle grading USDA Choice and Prime. Much in the same way, retail and foodservice segments have responded to a diverse set of consumer trends driven by consumption patterns, flavors, convenience, health and wellbeing, as well as a variety of newer, socially conscious issues including animal welfare and environmental sustainability.

External Factors Driving the Change in Cattle Grading and Consumer Trends

The U.S. cowherd has been in decline for the past 50 years. While this decline is in response to numerous external factors, the trend has only been accelerated in recent years by severe droughts that have plagued major cattle states reducing the U.S. cow supply by 8.5% (2.76 million head) from 2007-2012 (Corah, 2013).

Although producers have felt the pressures of economic change for considerably longer, the 2009 collapse of the U.S. housing market and following recession directly affected consumers and their meat purchasing habits. Even as late as 2013, among consumers who

changed their meat purchases, 91% were spending less (FMI and AMI, 2014). However, data from the 2014 Power of Meat survey may show signs of a return to pre-recession levels. Increased consumer spending and decreased importance of price show a willingness to ease up on money-saving measures adopted during the recession.

Despite the recession, demand for high quality beef has continually risen and had obvious effects on the quality of the already low feeder cattle supply. Today, the beef industry has seen a 12 percentage-point increase in carcasses grading USDA Prime and Choice since 1995 (Dykstra, 2014). The USDA Prime and Choice tonnage has increased by 5.7 percentage points in 2014 compared to 2013 (Dykstra, 2014).

This quality increase obviously did not occur on its own. While it comes as no surprise, producers have sought to offset costs and fill the supply gap through increased carcass weights. Producers have also done more to ensure cattle are hitting the quality targets demanded by consumers. One tool that's played a large role in accomplishing this goal, among others, is the National Beef Quality Audit (NBQA), an industry-wide evaluation of quality conformance developed in 1991.

The 2011 NBQA focused on quality challenges including consumer eating satisfaction, carcass weights and cattle genetics, all industry aspects hugely important in growing the USDA Prime and Choice quality mix. Given the trend toward increased carcass weights, maximizing genetic potential has become an incredibly important tool in the production of high-quality beef. Through the utilization of Expected Progeny Differences and genomic tools, the Angus breed has led the charge for improving the genetic capability of U.S. feeder cattle. In fact, the 2011 NBQA showed among feeders, packers and retailers, "black-hided" was the phrase most associated with "genetics" (Igo et al., 2011).

The increase in cattle grading USDA Prime and Choice, among numerous other factors, has had an effect on the way beef is marketed today. And despite rising beef prices, it remains a staple at the U.S. dinner table. The Consumer Beef Index (CBI) gives some insight into why

this is happening. The majority of consumers today still say beef isn't too expensive (Pelegrin, 2013). But most importantly, 72% of consumers listed beef as their first or top choice of proteins in 2013, a percentage that's only grown since the CBI was first conducted in 2007 (Pelegrin, 2013). When cost is factored in, consumers ultimately believe the price reflect beef's value and continue to vote with their dollars for beef's flavor, juiciness, tenderness and versatility.

Marketplace Trends

Branding

The entire beef industry has recognized the importance of consumer eating satisfaction to ensure future sales growth. This realization led to the development of branded beef programs designed to be consumer-driven and more in tune with end-user needs than commodity beef. Developing a specification-driven program designed to ensure pull-through consumer demand and satisfaction, Certified Angus Beef (CAB) became the first USDA certified beef program in 1978. In the 20 years following CAB's development another 10 programs were developed, but the branded beef trend really gained speed in the late 1990s (Speer, 2013). By 2013, there were 91 branded beef programs with 43% of those having a USDA Prime and Choice specification.

In general, the demand for branded beef has outpaced commodity Choice beef. Branded boxed beef sales have taken a greater percentage of the total wholesale beef total and has doubled since 2003 (Speer, 2013). Zimmerman and Schroeder (2013) quantified this demand by developing an index specific to CAB. They discovered CAB demand not only held steady during the financial crisis but also had actually doubled since 2002, with CAB demand increasing 108% compared to 51% growth for Choice-and-higher beef (Zimmerman and Schroeder, 2013).

Of today's branded programs, 70% are classified as "Angus," a trend that's had obvious effects on cattle genetics and breeding programs. Through data collected by Superior Livestock Auction video sales over the past 10 years, Zimmerman et al. (2012) demonstrated feeder calves described as "documented primarily Black Angus" received an average \$5.53/cwt in premiums.

Because of the quality and consistency associated with branded programs, brand loyalty for both fresh and processed meats has risen in years since the recession. The demographic with the greatest brand loyalty are higher-income, men and shoppers with children living at home. A greater percentage of these consumers prefer national over private label brands especially in processed and heat-and-eat products (FMI and AMI, 2014).

Beef Consumption Patterns

Understanding consumption habits is an important strategy in effectively marketing beef to the right consumers. Today, beef consumption is higher among consumers 18-34 as compared to those over 35 (Technomic, 2014). This group of 80 million consumers born between 1980 and 2000 is most commonly known as the "Millennial" generation. Millennials are a major target for beef marketing because they consume the most beef both at home and in restaurants of any generation and, given their age, will continue to be a major driver of beef demand for the next several decades (Beef Checkoff, 2014).

The average U.S. household consumes 3.8 home-cooked meals a week that include meat (FMI and AMI, 2014). However, there are stark differences in this number between higher and lower income households (HHs). Lower-income HHs prepare 3.2 meals that include meat at home each week compared to 4.2 in higher-income HHs (FMI and AMI, 2014). One reason for this trend may be the increase in meatless alternatives' household penetration in lower-income HHs. For example, the increase in pasta and casserole type meals over the past five years has increased 22% in lower-income HHs, but only 3% for higher-income HHs (FMI and AMI, 2014).

These numbers also show that higher-income HHs have driven a majority of the volume growth seen in the retail case.

Across all income groups, the number of consumers who prepare meat at least once a week held steady even throughout the height of the recession. However, the number of consumers using meat at least three or six times a week has fallen in recent years (FMI and AMI, 2014). While price is certainly one factor, several other important consumer interests such as nutrition and health, natural and organic trends, and social conscience concerns are also driving changes in meat decisions.

Retail Offerings, Restaurant Offerings, and Menu Mentions

Convenience meats and entrees are one retail offering that's seen tremendous growth in the past four years. The number of consumers who prepare ready-to-eat and heat-and-eat meat products at least once a week has increased 12% in the past four years. This is likely a result of increased uncertainty in meal planning. Today, 34% of consumers don't know whether they're cooking at home or eating out even two hours ahead of time and, of those who decide to eat at home, 39% don't know what they're going to prepare (FMI and AMI, 2014). While foodservice wins the majority of last-minute dinner decisions, retailers have the opportunity to win sales with convenience-based meal solutions.

Value-added products fit this same niche. Appealing primarily to higher-income HHs, value-added products have gained sales for a number of reasons. Items such as pre-marinated steaks, pre-cut kabobs and strips, or pre-portioned, specialty-inclusion burger patties all reduce meat-time preparation and appeal to the consumer desire for bold and unique flavors.

While chicken is still the dominant protein on U.S. menus, beef has held fairly steady in protein distribution among total entrees for the past four years (Technomic, 2014). And despite high prices, beef volume in the foodservice segment is back to pre-recession levels (Technomic, 2013).

Impacts of the recession and rising price of beef are magnified when it comes to traditionally higher priced cuts. The number of steak entrees menued in the past six years has dropped dramatically, marked by a 100-million-pound decline in steak volume by full service restaurants (FSR) (Technomic, 2013). However, half of FSR operators say having a strong steak presence on menus increases restaurant traffic (Technomic, 2013). As a result, many FSR operators have transitioned toward value-cuts. For example, any volume gains in steak have been made in newer, emerging cuts such as the flat iron, petite tender and tri-tip steaks (Technomic, 2013). While price is partially responsible for the growth of emerging cuts, another reason may be consumers' growing interest in non-traditional dishes and recipes. Compared with five years ago, 27% of consumers make more international and ethnic dishes and another 29% make more marinated meats (FMI and AMI, 2014). Fitting this trend, beef kabobs, stroganoff, and meatballs, admittedly lower priced items, have all risen in menu presence as well (Technomic, 2014).

But the real highlight is the tremendous growth of “better burger” entrees and restaurants. Characterized by fresh, simple ingredients, and a “made just for you” mentality, fast-casual burger restaurants have shown dramatic growth in recent years. Of the ten fastest growing fast-casual chains with under \$200 million in total sales, four are higher-end burger restaurants (Technomic, 2014b). Of all beef entrees, burgers have shown the most menu consistency since 2011 with strong demand for “specialty burgers” and “build-your-own” appealing to consumer individualization. For the past four years, “Angus” burgers have taken a growing percentage of menu share from other beef entrees. In fact, when consumers were asked what type of beef they most preferred in their burger at restaurants “Angus” was their first choice at 41% (Technomic, 2014). This should demonstrate the value of grinds to branded Angus programs.

Nutrition and Health Claims

Health and nutrition are certainly not new issues to the American consumer, but they're issues that can and have had a major impact on the entire beef industry. For example, the 1990s "war on fat" was reflected in the 1991 NBQA, where three of the top six quality challenges dealt with reducing carcass fat. In 2014, the number of shoppers making at least some effort to make healthy choices in the meat department reached 78% (FMI and AMI, 2014). That said, while all consumers may be affected by nutrition, 10% more high-income shoppers say they put a lot of effort into making healthy meat choices than lower-income shoppers (FMI and AMI, 2014). Simply put, the degree to which nutrition drives purchases is largely a factor of household income. The majority of nutrition-based purchasing trends are driven by older, higher-income shoppers who are less affected by the economy and have a greater amount of disposable income to spend on food, an important fact for packers and retailers to recognize. Nutrition, when selling beef in the retail case, must be made a priority even in times of economic downturn.

Strategies for healthy eating relative to meat are also highly dependent on the demographic. Higher-income HHs are more likely to choose leaner cuts. But, because leaner cuts are generally more expensive, the main strategies in middle and lower-income HHs are to limit second helpings and control portion size.

One of the biggest trends in nutrition is the growing number of high-protein snack and meal items designed to satiate hunger and appeal to the calorie-conscious shopper. High-protein claim items accounted for 19% of new product launches in 2013, almost three times higher than anywhere else in the world (FMI and AMI, 2014). While beef has the potential to inherently fit this trend, we can't rely solely on selling beef's "protein." In terms of processed meats, 30% of shoppers check the nutrition facts panel every time, another 37% check only processed products they've never purchased before (FMI and AMI, 2014). Fat and sodium are the two ingredients shoppers check most often, followed closely by saturated fats, calories and

cholesterol (FMI and AMI, 2014). This aligns with heart health concerns common to older shoppers, one of the demographics most interested in nutrition.

Natural and Organic Claims

While a portion of shoppers make natural and organic purchasing decisions an extension of their social conscience (perceived better animal treatment and environmental protection), for the most part, these decisions are driven by perceived health benefits. In fact, many natural and organic purchasers may be classified as a more extreme sub-set of the health-focused consumer segment. Among highly health-conscious consumers, 46% are more likely to purchase natural and organic (FMI and AMI, 2014). The consumer misconception linking organic and healthy shows the continual need for consumer education.

Overall, 34% of shoppers have purchased natural and organic meats in the past three months and this trend only shows signs of growing (FMI and AMI, 2014). Of these shoppers, 38% say they plan to increase their natural and organic purchases (FMI and AMI, 2014). This is likely because of increased willingness to spend, greater availability and a shrinking price difference between natural and conventional. All said, price remains the biggest barrier to increased organic and natural consumption (Hartman Group, 2012). During the recession, natural and organic meat sales dropped slightly as a result of consumers' stronger price focus during times of economic challenge. However, the majority of natural and organic shoppers feel strongly about the segment and are, therefore, loyal to it (FMI and AMI, 2014). For this reason, the natural and organic shopper has a stronger preference for national brands than the average shopper (FMI and AMI, 2014). There is a strong opportunity for branded products fitting this niche to increase sales and attract loyal customers.

On the whole, natural and organic consumers are incredibly ingredient focused but are more interested in avoiding certain ingredients (antibiotics, hormones, etc.) than including others (FMI and AMI, 2014). The most common reason, at 46%, this demographic gave for why they

purchase natural and organic meats was that it was “free of substances I want to avoid” (FMI and AMI, 2014). The “avoidance” trend has had far-reaching acceptance beyond just natural and organic shoppers and has had obvious impacts on meat product claims and labeling. Today, consumers see the term “natural” associated with real foods that have few, simple ingredients and minimal processing (Hartman Group, 2012). One example we see is the growing number of products labeled as “naturally cured,” utilizing the naturally occurring nitrates present in celery powder in place of the more threatening sounding sodium nitrite. Even more extreme, consumers reported in an Oklahoma State Food Demand Survey that added salt was a “natural” ingredient while sodium chloride was not, when they are the exact same thing (Lusk and Murray, 2013). These examples demonstrate the importance of using common ingredient names when labeling natural meat products.

Social and Sustainability Claims

Consumers today are increasingly interested in the beef production process and want know the beef they consume comes from cattle that were raised and slaughtered in a way that matches their ethical values. Other issues that socially conscious shoppers are concerned about are unintended long-term health effects of technologies used in beef production, animal treatment and environmental damage.

On average, consumer interest in social issues related to beef has fallen slightly from pre-recession levels (Technomic, 2014). With rising beef prices and greater economic uncertainty, consumers shifted back to putting greater emphasis on price, quality and value. With the economy re-stabilizing, consumers have shown they are willing to pay for “natural” production methods. Surveyed consumers said they would be almost 40% more likely to buy and pay for steroid-free, hormone-free, and antibiotic-free beef with 14% of those consumers saying they would pay significantly more (> 5% price increase) (Technomic, 2014).

The 2011 Beef Checkoff Consumer Image Index showed that nearly two-thirds (65%) of U.S. consumers have some degree of social conscience, but only 11% of those are proactive influencers of other shoppers (Beef Checkoff, 2013b). Similar to the health-conscious consumer, socially conscious consumers are generally higher-income, more educated shoppers.

Making informational and educational materials about beef production available to socially conscious consumers is one way the industry is helping to reduce their concerns. The Millennial Perceptions of Beef study showed beef stimuli such as videos and articles that balance fact with emotion have a positive impact on consumers' feelings about beef production (Beef Checkoff, 2014). At the same time, these same educational materials have little to no effect on consumers with "anti-beef" attitudes. While there is no doubt the natural and sustainability movements will affect current and future production practices, food processing methods and beef marketing strategies, it will be on retailers and producers to balance compromise and consumer education.

Future Issues

Consumers continue to increase grocery expenditures with the increase in price in many food items. While there is an increase in meat expenditures, one has to wonder what price will become too much for consumers to pay for beef. A recent FOODS survey (Lusk, November 2014) indicates that consumers' willingness to pay for meats, other than steak, continue to increase and that steak remains unchanged. In addition to concerns over price, consumer surveys across the board send mixed messages about consumers' wants and desires for more information about management practices and other on-farm production techniques (including technologies). While this is true, nearly every survey indicates that price, convenience and eating satisfaction are still more important than production history and other information.

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