

January 6, 2007

To: Beef Industry Colleagues

From: Robert Fountain, Chairman, Joint Evaluation Advisory Committee
Rich Otley, Director of Evaluation

Subject: FY 2006 Checkoff Evaluation Report

Accountability to producers for the use of their checkoff funds is a primary responsibility of the evaluation function at the Cattlemen's Beef Board. This document presents the results of checkoff-funded programs for the past fiscal year and some considerations and recommendations for the next year.

Between 1998 and 2004, the demand for beef in the United States increased 25 percent. Between 2005 and 2004, it fell 3.5%. While the comparative figure for 2005 vs. 2006 will not be available until mid-January 2007, it is probably fair to assume that it will show another drop between 2005 and 2006. When program committees meet at the Winter Meeting in Nashville, everyone needs to address the following questions, "What factors that effect demand are within the control of the program(s) in our area? What should we do that will have the most possible positive effect on demand in FY 2008?"

The result of last year's Supreme Court decision in favor of the constitutionality of the Beef Checkoff Program had some very positive effects on the checkoff-funded programs that were completed during FY 2006. Perhaps the most important factors were the re-staffing that took place at both the state and national levels and the improved communications that accompanied the implementation of work at both of these levels.

In compiling this report each year, we assign a letter grade for the work done during the fiscal year. The improved level of communication between the state and national levels increased the effectiveness of those programs that were "rolled out" for states during the year. Due to this factor, we would give the work completed in FY 2006, a grade of 'A'.

Behind the first tab of this document is a short overview of the work completed by your checkoff-funding during the year. This also includes the annual poll of state beef council executives and their staffs regarding those nationally "rolled out" programs. Evaluations

of each of the checkoff-funded project for FY 2006 and those from previous years that were finished in FY 2006 can be found behind the second tab.

Each year, the Joint Evaluation Advisory Committee does a series of in-depth program evaluation audits of selected checkoff-funded projects. Under tab three you will find the Executive Summaries of the FY 2006 audits. If you would like a complete copy of any of the audits, please contact Rich Otley at the phone number shown below.

During the upcoming meeting in Nashville, committees and subcommittees will be considering plans and developing priorities that focus checkoff-funded efforts for FY 2008. The evaluations in this book provide a measurement of past programs that could be helpful in successfully planning for the year ahead.

Please take a few minutes before the meeting and review the information related to your committee. Rich Otley will be attending joint program committee meetings and will be prepared to answer your questions. If you have any immediate questions, please call Rich at (800) 388-2333.

FY 2006 – A Quick Look at Some of the Checkoff-Funded Successes and Statistics

One of the primary objectives of the current Beef Industry Long Range Plan and the Beef Checkoff Program is to increase demand for beef and increase producer profitability. Beef checkoff funding is employed in many different ways to achieve these objectives. Thus, sometimes it is difficult for producers to see how checkoff-funded work is benefiting them.

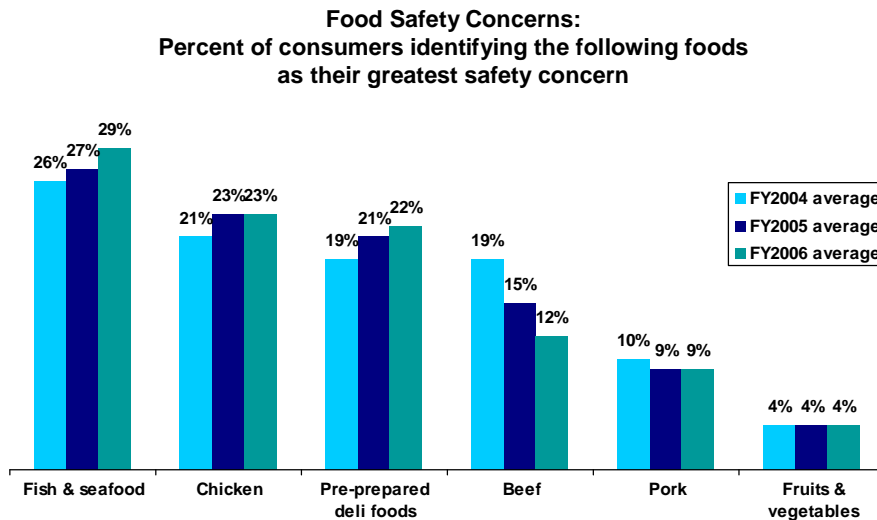
The pages under tab 2 of this document detail all of the results of checkoff-funded projects completed in FY 2006. Shown below are some of the factors that had positive effects on the beef industry last year. Some are a direct result of checkoff-funding, while others were positively influenced by checkoff-funded programs:

- + Improved communications between state beef councils and major contractors – specifically the National Cattlemen’s Beef Association (NCBA). For example, states were asked to rate the NCBA State Services area on quality, timeliness, usefulness, and responsiveness (on a 5 point high scale). The results were 4.5, 5.0, 4.5, and 4.7 respectively. Better communications leads to improved program results.
- + The consumer confidence level that U.S. beef is safe from BSE or “mad cow” disease has risen 3% from 91% to 94% in the last year.
- + There were a total of 6,789 checkoff-funded public relations placements in publications during the year that generated 4.3 billion positive media impressions about beef. *The Healthy Beef Cookbook* generated 346 million positive media impressions during the year.
- + The “enjoyment” advertising reached 94% of the target market 14 times during the year, while the “nutrition” advertising reached 72% of the target market a total of 6.5 times. In both cases, the set objectives were exceeded.
- + Recent research has shown that consumer concerns about the overall safety of beef declined 3% in the last year from 15% to 12%, while opinions about the safety of chicken remain steady at 23%.
- + The total beef foodservice volume in FY 2006 was 8.381 billion pounds, an increase of 950 million pounds over FY 2005. Last year, 169 million pounds of Beef Value Cuts were sold, which is 63 million pounds above the FY 2005 figure.
- + Over 70 new product concepts were generated during the year. Three new cuts have been found in the chuck roll, which should be ready for market introduction by summer 2007, and additional cuts are being explored. Like the first “Value Cuts” program, this is the combined work of Research and New Product Development.
- + Beef tenderness has improved 18% since 1999, according to the latest checkoff-funded National Beef Tenderness Study.
- + Nutrition curriculum programs developed by the Beef Checkoff Program were distributed to more than 100,000 teachers, reaching 4.3 million students in FY 2006.

FY 2006 Evaluation Overview of Checkoff-Funded Programs

Overall, FY 2006 was a good year for cattlemen and the Beef Checkoff Program. A 5.5% increase in beef production, resulted in a net 2% increase in beef supply, and prices remained basically flat. Total exports increased from about 700 million pounds to 1.2 billion pounds. With the exception of cattle feeders, there was profitability in the other sectors of the beef business. Final demand figures for FY 2006 will show a slight increase on the wholesale side of business, while the retail demand number will probably be a slightly negative figure. Final retail demand figures will be available in the second or third week of January 2007.

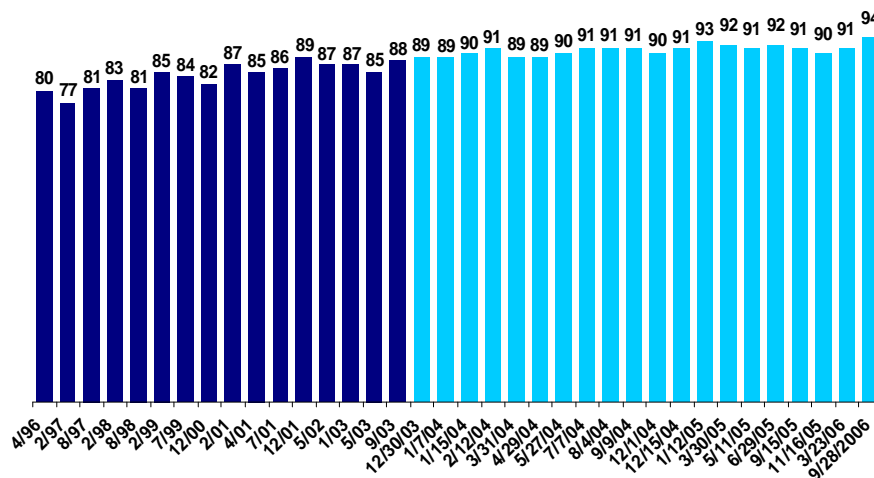
With the recent focus on *E. coli* found in produce products, the facts show that consumer concerns about the pathogen being found in beef continue to decline. As the following chart shows, consumer food safety concerns about beef have dropped 3% in the last year to 12%, while those same concerns about chicken remain steady at 23%. Checkoff-funded projects continue to work at further reducing and eventually eliminating *E. coli*.



Another measure of consumer acceptance and satisfaction with our product is their confidence that beef is safe from BSE or “mad cow” disease. The chart shown shows the consumer confidence level that beef is safe from “mad cow” disease has increased 3%, from 91% to 94%, in the last year. Checkoff-funded Issues Management efforts continue to “debunk” false or misleading information regarding BSE and beef.

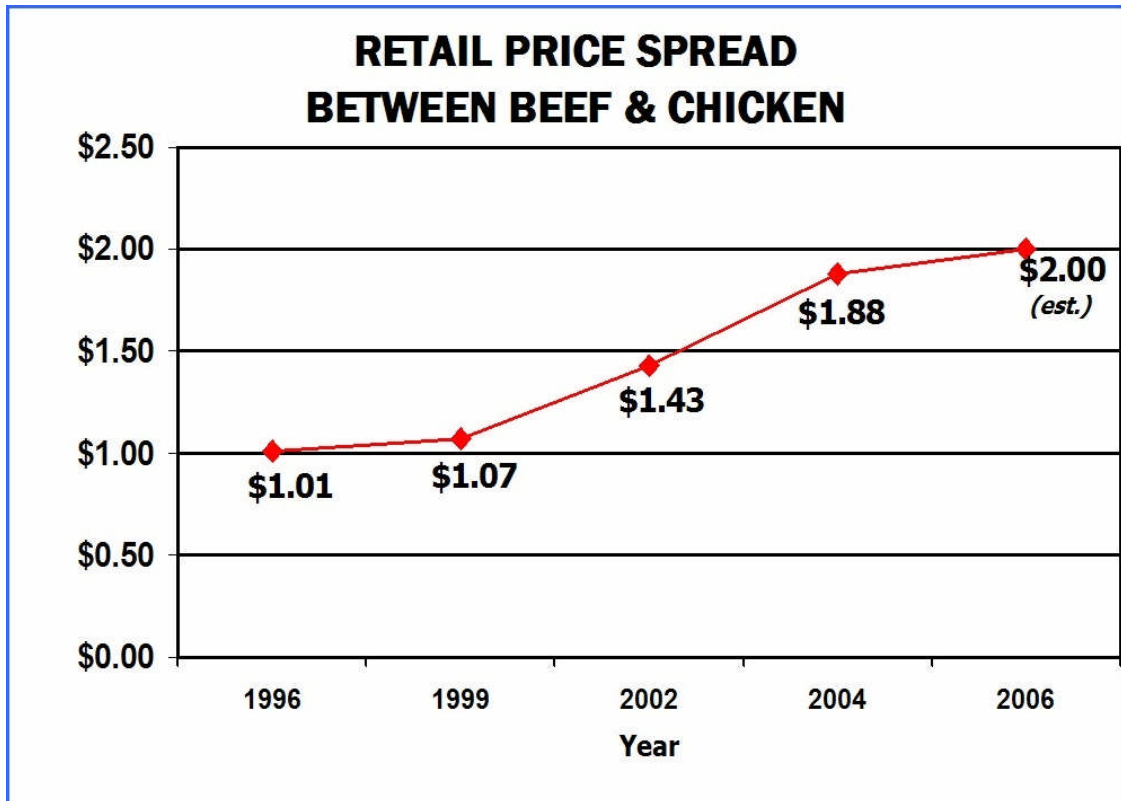
Confidence:

Percent confident U.S. beef is safe from “mad cow” disease



One of the primary goals of the Beef Industry Long Range Plan is to increase demand for beef by 10% between 2006 and 2010. The Beef Demand Index (based on retail beef data) shows that since 1998, when beef demand hit the bottom of a 20-year slide, demand rose 25%, and today is about 12% above the 1998 level. Figures for the change in demand between 2005 and 2006 will not be available until mid-January 2007. Using the quarterly data for the first three quarters as a guide, however, the final number will probably show that beef demand declined again between 2005 and 2006.

Why is beef demand decreasing? There are many factors that come into play trying to answer that question. For starters, there has been a 5.5% increase in beef supplies during the year, and supply increases in all other competitive protein supplies. The retail price spread between beef and chicken (see the following chart) has doubled in the last 10 years. This dramatic change may have, lead to some price resistance on the part of consumers in their decision about purchasing one protein over another. Looking back to the beginning of the year when fuel prices were in the \$3.00 range, we identify another factor that may have had a negative effect on beef purchases when compared to competing proteins.



There is no simple answer as to the best way to build demand for beef. Looking at the success between 1998 and 2004, however, progress in several checkoff-funded areas certainly contributed to the demand increases. The work done in research to develop the new Value Cuts, tied to the work in New Product Development, and “selling-in” the new product through the retail and foodservice functions helped increase the demand for our product. Selling 10% of our product overseas through for the checkoff-funded foreign marketing program was also helpful. The point is these are areas where the checkoff could, today and tomorrow, exert positive influence through research and marketing to increase demand. There are market factors, such as increasing supply, that we can not control. Our focus and priorities should be based on those areas that have helped us be successful in the past.

Proper and complete acknowledgement of the Beef Checkoff Program continues to face challenges with the National Cattlemen’s Beef Association (NCBA). Several state beef councils continue to indicate they think it is inappropriate for a contractor to include its name on any material representing the checkoff program. The only contractor who has been mentioned in this regard is the NCBA.

The scope of the remainder of this document is intended to present results of checkoff-funded programs that were conducted and completed in FY 2006.

Comments from State Beef Council Executives and Staff
State Roll-Out of National Programs and Some New Ideas

As part of the evaluation process each year, we poll many of the executives and their staffs from state beef councils about the results of programs rolled out from national contractors. As the information that follows will indicate, there were many programs that the state beef councils felt were important and worked very well.

In the course of these interviews, however, another factor became very clear. The communication and positive level of service provided by national contractors, and the National Cattlemen's Beef Association (NCBA) in particular, was judged as having improved a great deal during the fiscal year. No doubt, part of these opinions have to do with the fact that both NCBA and the state beef councils have increased staff levels since the Supreme Court decision last year. But, there were many instances where comments such as, "When I call I get answers", or "They responded to my request quickly" were made by the people at the state beef councils.

Good communication and cooperation between organizations is an important factor in raising the level of success of any program. While some negative mentions were made, and knowing that there is always room for improvement, as a whole, the comments focused on the positive and on making improvements in the future. Looking at FY 2006 overall, the improved communications between organizations can be considered as important as the success of any individual checkoff-funded program. The better the communication between business partners, the better the overall result of the combined effort.

The following program information is presented not as a popularity contest, but so state staff and directors can assess how their contemporaries view these programs and so that committee members and project managers can use the "programs that didn't work well" and the new idea comments as tools to help make positive changes to future programs.

In reviewing the information shown on the following pages, we should keep two points in mind. First, the needs, available funding levels, and priorities of state councils vary. Thus, a program may be important to one state, but may not be important to another state. Therefore, the reader may see programs on both the "worked well" and "didn't work well" lists. Second, the programs shown below are ranked by the number of times they were mentioned by each state.

(Refer to table next page)

<u>Programs That Worked Well at the State Level</u>	<u>Number of Mentions</u>
Retail	21
Beef Training Camp = 7	
Retail Market Managers = 6	
Beef Value Cuts = 2	
Retail (in general) = 5	
<i>Beef Blast</i> newsletter = 1	
Issues Management	21
Producer Communications (PC)	19
State Services = 6	
PC (in general) = 4	
Annual report = 6	
Rural News Service = 2	
Producer media tour = 1	
Foodservice	19
Foodservice (in general) = 6	
Beef University = 5	
Partnerships = 3	
Ads = 2	
CIA – 2	
MUFSO = 1	
Advertising	12
Youth education and materials	11
Beefmobile	10
Nutrition	9
Seminars = 3	
Kits = 3	
Nutrition (in general) = 3	
<i>Healthy Beef Cookbook</i>	7
Summer Grilling program	7
Culinary Center	6
Food Communicators program	6
Extranet	4
New Product Development	4
Research (helping with state proposals)	4
Beefbacker program	3
Beef Quality Assurance	3
Spokesperson training	3
USMEF – communications are getting better	3
Holiday roast brochure	2
NCBA – communications are getting better	2
Northeast Initiatives	2
Beef Ambassador program	1

<u>Programs That Worked Well at the State Level</u>	<u>Number of Mentions</u>
Beef safety research	1
Beef/veal ad planner	1
Consumer market research	1
Consumer recipe brochures	1
Dairy Forum	1
Fit for a Princess	1
FMD Summit	1
Health Professional Influencers	1
Hispanic marketing materials	1
IT Services	1
National Beef Cook-Off-nice to see it moving to a big city	1
New convenient beef products	1
Nutrition research	1
Safety public relations	1
State kickoff meeting	1
Recipe brochure with less expensive cuts in it	1
Veal-when will muscle profiling be done? (completion = January 2007)	1

<u>Programs That Did Not Work Well at the State Level</u>	<u>Number of Mentions</u>
Beefmobile	5
We need more notice (time) on Foodservice partnerships	4
Keep NCBA's name off ads and materials	3
Beef Ambassador program	3
Beef Quality Assurance - still needs work/needs a national plan	3
We need more Hispanic marketing materials	3
Beefbacker program – we can't get applicants	2
State Services is slow to respond to our requests	2
The new advertising research is worthless	1
We need to go back to TV advertising	1
Environmental stewardship – we can't get applicants	1
Extranet – too many layers to go through to find stuff	1
Food Communications – releases are boring – not “cutting edge”	1
Keep “Fit for a Princess” program alive	1
Foodservice – need more information on traditional cuts, not just BVC's	1
Foodservice needs some new partners	1
Nutrition staff needs to be more “state friendly”	1
Retail still needs more staff	1
Summer Grilling is getting old – can't we do something new?	1
Veal foodservice needs help	1
Veal – it seems like the packers are running the veal checkoff programs	1

Ideas, Thoughts, and Issues That Deserve Further Consideration

The following comments from State Beef Council Executives and staff members are presented in the hopes that project managers, committee members, and others will view them as opportunities to improve overall program effectiveness and communications with the states:

- + We need more recipe brochures – roasts, slow cookers, ground beef, or another one like “30 meals in 30 minutes” – recipe brochures were mentioned 5 times
- + We need more national people (staff and producer leaders) speaking at the state level – mentioned 3 times
- + We need a good Producer Communications “coffee shop” piece to reach producers
- + For Southern states, since it is too hot and buggy to grill in the summer, how about a promotion designed for the fall or early winter?
- + Extranet – let’s have a catalogue of available materials – color code them – new; out of print; etc. – also, is there some means by which we could see materials from other states?
- + We need recipe brochure for the “average consumer”
- + A kit for the beef councils that addresses how to handle activists would be useful
- + Monday Memo used to include program results. Could we do that again? It provides good feedback to my producers
- + I’d like a list of all of our websites
- + Could we get a sight map of the Extranet?
- + A quarterly or semi-annual power point presentation of “what’s new” would be very useful for communicating with producers
- + How about a brochure for kids on cooking with a microwave/after school type stuff
- + We need a universal manual for producers on Beef Quality Assurance
- + I’d like to see copies of other states annual reports
- + Could we put the Culinary Center photos on the Extranet?
- + We need all the nutrition brochures in Spanish
- + We would like a PDF format where we could see all the materials ads, brochures, Producer Communication materials, etc. that are available
- + We need :60 second radio spots

Financial Considerations

Included in the evaluation process is an analysis of contractors' accuracy in projecting the timing of payments needed from the Beef Board to reimburse costs incurred on approved projects. This analysis was performed for FY 2006 Authorization Requests (ARs) for which payments were made by the Cattlemen's Beef Board (CBB) during the period of October 2005 through October 2006 (the "CPE" – Cost Projection Estimate Period).

For all ARs funded during FY 2006, the total that contractors indicated they would need to be reimbursed by CBB during the CPE period was approximately \$45.3 million. However, actual payments made by CBB during the CPE period for those same ARs totaled only \$35.3 million, which is \$10 million, or 22% less than the total amount projected by the contractors. This amount is \$4,640,000 more than the difference last year, so contractor accuracy of projecting the timing of payments needed from CBB worsened significantly in FY 2006. As these numbers indicate, contractors need to improve the accuracy of their cash flow projections.

The program areas that accounted for the largest differences were Public Relations (\$1,576,000), program implementation (\$1,525,000), Foreign Marketing (\$1,058,000), Product Research (\$996,000), Market Research (\$962,000), Foodservice Promotion (\$960,000), Retail Promotion (\$936,000), New Product and Culinary Initiatives (\$521,000), Producer Communications (\$367,000), Nutrition Influencers (\$347,000), Youth Education (\$257,000), Issues Management (\$243,000), Advertising (\$174,000) and Quality Assurance (\$107,000).

For FY 2006, the Beef Promotion Operating Committee approved Beef Safety, Product Enhancement, and Nutrition Research ARs totaling \$4,337,000. Of that amount, \$1.2 million (or 27%) had not been assigned to specific research projects by the end of the fiscal year, September 30, 2006. One possible solution to this on-going challenge could be for the National Cattlemen's Beef Association (NCBA) to bring in an outside firm to provide a seminar for project managers on financial planning and implementation. Better planning and timing could substantially help to reduce the size of the numbers mentioned above.

Another component of the Beef Board's annual evaluation process is an analysis of contractors' accuracy in budgeting funds needed from the CBB to conduct the projects included in the ARs. This analysis includes data as of November 30, 2006 for ARs approved by the Beef Promotion Operating Committee during fiscal years 1997 – 2005. The FY 2006 ARs are not included in this analysis because the CBB has not yet received the final invoices from contractors.

In general, the contractors' accuracy of budgeting steadily improved during the years 1997 through 2002, but dramatically reversed the trend in FY 2003 through FY 2005. The following summarizes the portion of budgeted expenses that were not expended by the Beef Board contractors (\$ in thousands):

<u>Fiscal Year</u>	<u>Total AR Budgets</u>	<u>Funds Unspent</u>	<u>% of Funds Unspent</u>
1997	\$46,141	\$4,517	9.8%
1998	\$47,839	\$4,673	9.8%
1999	\$50,232	\$3,657	7.3%
2000	\$48,881	\$3,045	6.2%
2001	\$50,480	\$2,288	4.5%
2002	\$48,313	\$2,056	4.3%
2003	\$45,585	\$4,982	10.9%
2004	\$49,736	\$5,434	10.9%
2005	\$47,690	\$4,911	10.3%

A portion of the large unspent budget amount in FY 2005 (approximately \$280,000) relates to long duration research projects that have not been completed as of November 30, 2006. Nonetheless, the amount of unspent funding in FY 2005 will remain above 9.7% even if all of the FY 2005 research funding is used by the contractor.

The ARs with the largest amount of unspent funds in FY 2005 were:

<u>Name of AR</u>	<u>Funds Unspent</u>	<u>% Funds Unspent</u>
NCBA Implementation ARs	\$1,669,519	21.6%
New Product & Culinary Initiatives	573,673	20.1%
Consumer Advertising	352,921	2.7%
Retail Marketing	339,901	12.3%
Korea Promotion	301,349	71.6%
Hong Kong/China Promotion	203,568	84.9%
Nutrition Research	151,518	14.4%
Beef Safety Research	128,608	6.8%
Public Relations	115,162	4.5%
Japan Promotion	86,639	4.5%
Foodservice Marketing	84,939	3.5%
Producer Communications	84,663	6.2%

Using the percentage of unspent funds to budgeted funds, the following FY 2005 ARs had the highest percentages of unspent funds:

<u>Name of AR</u>	<u>% Funds Unspent</u>	<u>Funds Unspent</u>
China/Hong Kong	84.9%	\$203,568
Retail Market Research	83.1%	68,164
Korea Promotion	71.6%	301,349
Russia Promotion	66.4%	36,177

<u>Name of AR</u>	<u>% Funds Unspent</u>	<u>Funds Unspent</u>
NCBA Implementation ARs	21.6%	\$1,669,519
New Product & Culinary Initiatives	20.1%	573,673
Taiwan Promotion	18.1%	25,181
Nutrition Research	14.4%	151,518
Quality Assurance	13.6%	49,261
Retail Promotion	12.3%	339,901
Issues Management	11.9%	52,825

FY 2004 and FY 2005 brought a great deal of uncertainty over the continued existence of the Beef Checkoff Program because of the law suit over the constitutionality of the program. There is no question that this situation had a negative effect on the productivity of some checkoff-funded programs. The questions that we will never be able to quantify are: 1) How much effect did this have on productivity? and 2) Which programs were most affected?

Promotion

As indicated in the list of program comments from the state beef councils, the effectiveness of the Retail Marketing program appears to have increased in FY 2006. Part of that increase is due to staffing up in the area. But, based on program results and comments from the states, most of the success is based on the breadth and effectiveness of the programs available from this area during the year. The New Product Development area sprang back to life as exemplified by development of 70 new beef product concepts. In addition, by summer of 2007, three new cuts from the chuck roll should be ready for market introduction, and additional cuts are being explored. This is another good example of adding value to underutilized cuts of beef and responding to consumer desires.

The Culinary Center in Chicago was a very positive catalyst in bringing beneficial new food concepts to both national and state programs. Planning also began for the next National Beef CookOff to be held in Chicago, Illinois in September 2007. Having the event in a truly “destination” city should help attract food editors, the primary target for the event.

The Northeast & Northern Virginia Retail Marketing program, managed by the Meat Importers Council of America and several state beef councils performed well during its first year. Designed to further develop the dense U.S. Northeast market, the program established relationships with new retailers, while mirroring the core, checkoff-funded retail programs being implemented around the country and managed by the National Cattlemen’ Beef Association (NCBA).

Recently, the Beef Checkoff Program was inducted into the Multi-Unit Foodservice Operators (MUFSO) “Supplier Hall of Fame”. The award is given to “those select few suppliers who have set a standard of excellence for an entire industry through their outstanding commitment to quality, delivery and service.” Other inductees in MUFSO’s 47 year history are American Express, Ecolab, Coca-Cola and Rich Products.

During the year, an extensive research project was undertaken called Brand Enhancement research. The intent of this work was to learn ways to build on consumer’s already strong emotional tie to beef. The work showed that consumers still enjoy our product a great deal. At the same time, they talked about the importance of beef as a fuel for their bodies. Attempts to meld the enjoyment and “fuel the body” concepts through creative research studies has proved challenging. The research is continuing in FY 2007 and likely will have an impact on plans for FY 2008.

Looking ahead to planning for FY 2008, consideration needs to be given as to how best to focus a limited amount of resources across a vast array of options. From a target marketing perspective, we talk about the youth market, hand-held, youth-friendly products, the Hispanic market, and the baby boomer market, to name a few. Spreading our resources thinly across too many target markets will not bring us the results we desire or need. Additional clarity and focus should to be directed toward target markets as business planning begins for FY 2008.

Research

Beef safety is the foremost factor in continued high levels of consumer confidence in our product. This year's Beef Safety Summit brought together 80 experts from the beef industry to continue developing industry-wide strategies that will ensure a safe beef supply. During the year, advances were made in building pre-harvest databases that should lead to introduction of beneficial vaccines. Additional work will be needed in FY 2007 to deal with the increased levels of salmonella that are being discovered, in many instances, in holding pens at slaughter facilities. Another factor that the industry must continue to keep on its "radar screen" is a growing concern that because of recent successes in combating pathogens such as *E. coli* O157:H7 that beef safety is not as important a concern as in past years. It would be a serious and potentially dangerous mistake to ever move food safety from the top of the industry's priority list.

Product Enhancement research results reached a broader audience this year, in part because of the new Web site in this area. The latest National Beef Tenderness Study shows that beef tenderness is up 18% since 1999. That statistic represents progress, but much work remains to be done. The National Market Basket Study also showed that fat trim levels at retail continue to decrease.

Research continued during the year in areas such as beef safety/pathogens BSE, Salmonella, and *E. coli* O157:H7; muscle characteristics, both short and long-term; genomics; nutrition research; and market research. The Ground Beef Initiative research continues to look at ways to reduce fatty acid and possibly add Omega 3 to the product. The sooner this research is completed, assuming positive results, the sooner we will have additional positive selling points for the most common form of beef sold in the U.S.

Consumer and Industry Information

During FY 2006, the second domestic case of BSE was discovered in the U.S. Response from consumers and the marketplace to the discovery was greatly diminished from the first U.S. case in December 2003. Previous exposure to the issue and a unified issues management approach at both the state and national levels were factors in the reduced amount of press coverage of the incident. During the last year, consumer confidence that U.S. beef is safe from BSE or “mad cow” disease has increased 3% from 91% to 94%.

Most of the beef industry effort put forth to counter the anti-beef rhetoric of the book *Chew on This* and the movie *Fast Food Nation* was non-checkoff-funded. That said, the work that was done was successful, aided in no small way by scripts that were pretty much panned by critics and the public alike.

Nutrition public relations work added 667 million positive media impressions during the year. *The Healthy Beef Cookbook* continued to be a hit with consumers and health professionals alike and drew 346 million positive media impressions by year end. There were a total of 6,789 public relations placements in publications during FY 2006 that generated 4.3 billion positive media impressions. The subscription base for *Beef So Simple*, the checkoff-funded beef promotion e-newsletter, grew 7%, to 36,103; while www.BeefftsWhatsForDinner continues to be the most popular checkoff Web site, with unique visitors per day averaging 3,522, up 77% from a year ago.

This was the first year of the Northeast & Northern Virginia Public Relations program, managed by the Meat Importers Council of America and several state beef councils in the region. The program was able to achieve most of its objectives, however, by management’s own admission; it would have operated more effectively with the addition of at least one part-time staff member. The intent is to make that addition during the FY 2007 program year.

Progress was made in the area of youth education with the introduction of teaching kits including the *School Wellness Kit* and *Choose Well*, both of which have been very well received by educators. Also during the year, the *Choose Well* video, *Food!* was awarded both a Silver Telly for educational value and a Bronze Telly in the health and wellness category. In addition, the Zip4Tweens program received a Parent’s Choice approved award. The youth education area has been going through a process of analyzing the

market and restructuring for the last year. It is time for this area to move forward with full implementation of all parts of the new program design.

The National Beef Ambassador program, managed by the American Nation Cattle Women (ANCW) continues to do an excellent job of training young people in public speaking and delivering positive messages about beef and the beef industry. As the CBB evaluation staff has said in the past, however, it is impossible to prove how this program increases demand for beef. The evaluation recommendation continues to be that ANCW should seek private funding for the program.

Next to the issue of food safety, the quality and eating experience of our product is a key factor in selecting beef over other proteins in the minds of many consumers. The

checkoff-funded Beef Quality Assurance program was designed to help assure a high level of quality for beef, on a nation-wide basis. For the last two years, the program has lacked clear direction and the resources necessary to keep the program growing. In the meantime, states have worked hard to keep their individual programs viable and relevant. Producers who sell cattle across state lines have complained about the lack of consistency in the BQA program from state to state. The Evaluation Committee conducted an audit of this area two years ago and this year commissioned “White Papers” (see tab 3) on “What the BQA program might look like in 5 years.” In early January 2007, the newly formed BQA Strategy Working Group will meet to develop a strategic plan for BQA. It is vital to the continuing process of raising demand for beef that the new plan is given the resources needed to succeed and put in place and implemented as quickly as possible.

Foreign Marketing

During FY 2006 checkoff-funded foreign marketing efforts were still hampered and stunted by the original discovery of BSE in the U.S. on December 23, 2003. In FY 2003, total U.S. beef exports to foreign countries were \$3,027,147,000, while in the year just completed the total had fallen to \$1,885,820,000. Japan, formerly our largest market, was closed for most of FY 2006 and Korea, formerly our second largest market, was closed to U.S. beef for the entire fiscal year.

Year-to-date Value (US \$000)				
Country/Region	10/03-9/04	10/04-9/05	10/05-9/06	% Change 9/05-9/06
Mexico	\$550,718	\$823,234	\$1,137,275	38%
European Union	\$28,461	\$39,226	\$34,051	-13%
ASEAN	\$25,192	\$30,156	\$18,424	-39%
Middle East	\$37,575	\$44,667	\$110,154	147%
Caribbean	\$35,175	\$40,495	\$56,807	40%
Russia	\$18,045	\$5,917	\$724	-88%
Taiwan	\$23,552	\$41,652	\$81,009	94%
Central & South America	\$5,855	\$8,051	\$10,426	29%
Korea, Republic of	\$202,839	\$749	\$173	-77%
Hong Kong/China	\$50,300	\$3,340	\$7,881	136%
Japan	\$361,711	\$2,180	\$32,477	1389%
WORLD TOTAL	\$1,481,941	\$1,238,103	\$1,885,820	52%

In open markets during the year, as the reports under tab 2 indicates, programs moved forward to increase the demand and sale of U.S. beef. In the closed markets, work continued to keep the image of U.S. beef in front of potential future buyers. In the program evaluation report for the ASEAN region, USMEF states, "There tends to be high turnover among chefs in the HRI sector and chefs do not always have the power to make purchasing decisions. By including those who have more purchasing control and may have a longer life span at the establishment, USMEF may find greater longevity in their results." The CBB evaluation staff agrees with this comment and therefore does not understand why this shift, in who they are selling to, is not being considered in any other markets. Consideration should be given to shifting the marketing target in other markets from chefs to those who have the authority to purchase our product.

Domestically, the Hispanic market has been identified as a very important one for the future increase in demand for beef. USMEF works in the major Hispanic markets worldwide. USMEF and NCBA consumer marketing personnel have discussed the marketing challenges and opportunities in the past. Recently, the *Beef Value Cuts Handbook* was translated into Spanish for use in Central and South America. With the experience that exists at USMEF, domestic marketing efforts could be well served if more communication existed between these two entities regarding marketing to the Hispanics.

The challenges that have and do exist in the Japanese and Korean markets to U.S. beef go far beyond any scientific reasons and into the realm of internal politics within the

individual countries. For example, during the market closure in Japan, USMEF wanted to publish advertorials in leading Japanese newspapers. In all cases, however, the papers refused to sell USMEF the space in their publications. USMEF talked with many “key opinion leaders” who would be effective in changing the perception of U.S. beef. Unfortunately, these individuals were also unwilling to support U.S. beef during this time due to the negative publicity which had resulted from long and often contentious government-to-government negotiations characterized by many in Japan as a demonstration of “heavy handedness” by the U.S. government. The most recent news, at least from Japan, is that media coverage surrounding U.S. beef has become more neutral to positive since the market reopened.

As mentioned earlier, the redevelopment of closed foreign markets is a key element in continuing to build demand for our product and thus achieving one of the primary goals of the Industry Long Range Plan to build demand by 10% by 2010. The more timely and accurate the data flow from USMEF to the Operating Committee, the faster foreign marketing programs can be implemented to help achieve the goal of the plan.

Producer Communications

There is still a need in the Producer Communications area for more measurable objectives. In late January 2007, the results of the one-time, 8,000 person Producer Attitude Survey will be announced. This data may provide direction for change in both the way we communicate with producers and the way we measure that communication.

Management of the National Cattlemen's Beef Association has been making positive changes in the way producers are reached through the use of paid media. More consideration should be given in this area to directing some of the media support to the geographic areas where checkoff support is weak rather than simply buying media where producer numbers are highest – and this effort should continue. In addition, recent media analysis indicates that producers may be more receptive to Producer Communications messages when they are delivered by radio as opposed to print media, which could have an effect on future media buys.

The Beefmobile program, managed by the National Livestock Producers Association, made 259 stops across the country last year, while reaching over 110,000 producers and consumers with informative information and data about the Beef Checkoff Program. Additional work needs to focus on trying to set up more media interviews at each stop made by the Beefmobile and also in directing more producers to the Beefmobile Website.

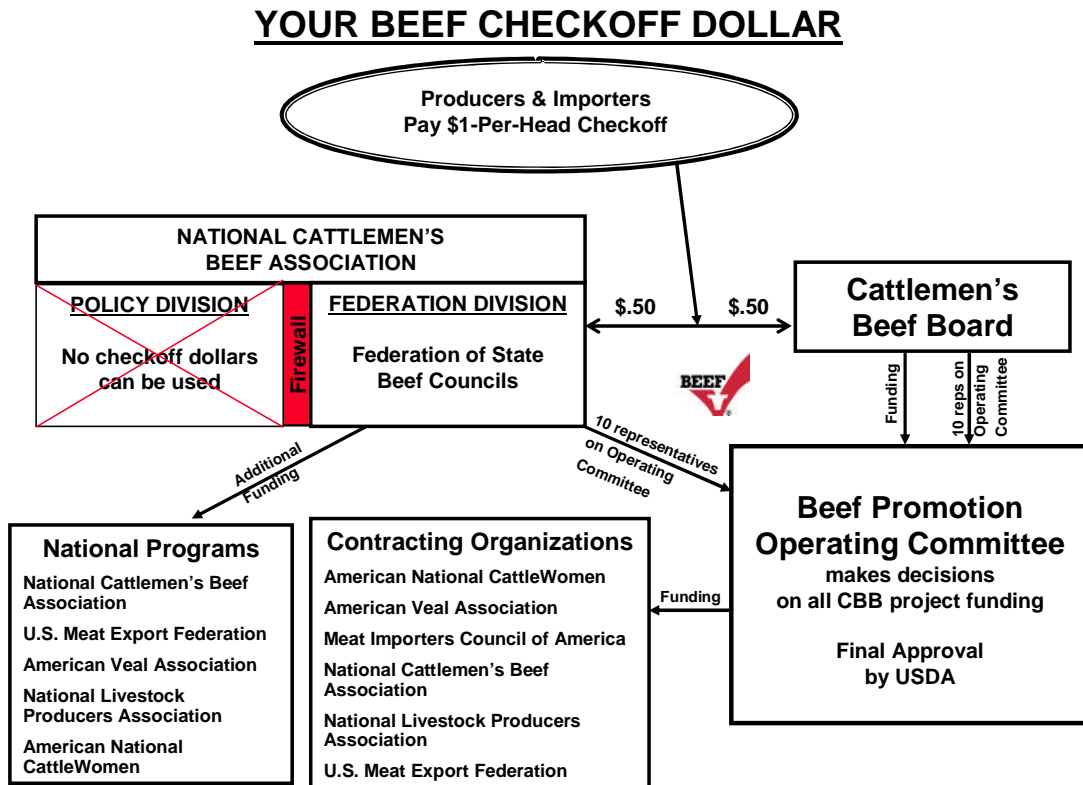
Communications to dairy producers have improved in the last year. There was very good representation by the Beef Checkoff Program at a variety of dairy meetings and conventions around the country in FY 2006. There is, however, much more work to do. It is suggested that a more aggressive effort be made to distribute “feature releases” to more dairy publications in an effort to get more stories published in more publications so that dairy producers understand how their beef checkoff dollars are being invested.

Based on the response from interviews with State Beef Council Executives and staff, the work product provided (by NCBA in Producer Communications-State Services) and the speed with which it is delivered ranks high in their opinions. A survey was conducted with state beef councils to rate the quality, timeliness, usefulness and responsiveness of service in this area on a 5 point (high) scale. The results were 4.5, 5, 4.5, and 4.7 respectively.

Last year's year-end evaluation report made note of the fact that there is some misunderstanding throughout the country about the Beef Checkoff Program and the roles of some of the organizations that are involved in it. Therefore, the following points and accompanying chart are presented in an effort to clarify the issues:

- + The Beef Board and the National Cattlemen's Beef Association (NCBA) are two separate organizations.
- + NCBA has two parts, separated by a firewall, the Federation Division and the Policy Division. Checkoff funding **can not be used** to support the Policy Division.
- + The Federation of State Beef Councils is a part of the Federation Division of NCBA.

The following chart shows how many of the organizations function and inter-relate to each other:



In the area of CBB Communications, the addition of the Beef Board Meeting “blog” was a positive step in providing an opportunity for any producer with Internet access to see what happens at Beef Board meetings that they can not attend. And while this is a site meant to focus on meetings, and separate from the Beef Board’s main Web site, it would be a stronger site if it were updated with more discussion of upcoming meetings and the topics to be addressed at those meetings. Nearly 15,000 copies of the FY 2005 Beef Board Annual Report were distributed during FY 2006, providing producers nationwide with information about the results of their checkoff investments. The report summarizing FY 2006 highlights will be issued in January 2007.