Consumer Trends

Encore Food Solutions CEO offers insight on customer segments and beef demand.

*by **Kasey Brown,** senior associate editor*

"If I want to buy Select or lower-quality beef, I'll just import it," said Paul Heinrich, CEO of Encore Food Solutions, as he spoke to attendees of the 2016 Kansas State University (K-State) Cattlemen's Day in Manhattan, Kan., March 4. While American beef's quality has gone up exponentially, what does that mean for consumers when it also means that prices are up? The foodservice sales and procurement specialist shared some trends impacting the growth of beef demand, including a growing disparity in income, a shifting consumer base, health and wellness trends, and the price of beef.

Shifting consumer base

There has been an economic shift that has created two income groups and a fading middle class in the United States, he said. The first group is the budget-conscious group, which consists of about 60% of the population and holds 25% of the country's purchasing power. The other 40% of the population is in the spenders group. This group has 75% of the nation's purchasing power.

The spender group can afford to buy beef even when prices go up, Heinrich said, but offered a warning. "My biggest fear is that beef may go the way of lobster or the veal industry, in that they are luxury items. Beef merchandising and products need to be relevant to both groups."

"It is critical to provide shoppers with value-based beef meal solutions that fit consumers' needs and lifestyle."

— Paul Heinrich

In addition to being accessible to both budget groups, he added that the beef industry also needs to appeal to diversified consumer segments. Millennials get the most media mentions, and for good reason. This generation of adults ages 18-34 are 86 million strong. However, he added that males are increasingly sharing the responsibility for shopping trips, at 43%, and the multicultural sector will account for 54% of the U.S. population by 2043.

Baby boomers are still the largest age demographic of consumers by representing 26% of the U.S. population, and they are more engaged in healthy eating habits, he said. While it is important to keep this demographic happy with their beef purchases, he said millennials are the key to long-term beef demand growth, especially as they shift from the budget-conscious group to the spender group. They represent $200 billion in U.S. purchasing power.

The multicultural sector is growing by leaps and bounds, he said, and it is estimated to reach 54% of the United States' population by 2043. The U.S. population will comprise African Americans at 11%, Asians at 8%, Hispanics at 30% and others at 5%, with Caucasians accounting for 46%.

"Engaging multicultural consumers today is vital for retailers to appeal to diverse ethnic palates," he said.

More people are making purchasing decisions based on "good" and "bad" attributes in terms of health due to on-pack labels. "Natural" and "organic" labels accounted for $3 billion of sales in 2013 and are projected to eclipse $8 billion in 2022.

Natural beef presents a great opportunity for growth, Heinrich predicted, but admitted it has a weak definition. The government defines it as something minimally processed, which encompasses "nearly everything."

Natural and organic shoppers' spending is higher across all categories, he reported. The average weekly grocery spending for U.S. shoppers is $103.42, and natural and organic shoppers spend $132.79 on average, an increase of $29.37 per trip.

Fig. 1: Consumers are most willing to pay more for beef with quality indicators or which highlights a lack of additives

I would be more likely to purchase and I am willing to pay ____ for beef that is …

	Slightly more (≤5% price increase)	Significantly more (>5% price increase)	Total
Premium	30%	10%	40%
Hormone-free	25%	13%	38%
Steroid-free	24%	12%	36%
Domestically raised	26%	10%	36%
Antibiotic-free	25%	11%	35%
Grass-fed	25%	10%	35%
Farm-raised	24%	10%	34%
Locally raised	24%	7%	31%
GMO-free	22%	9%	31%
Natural	22%	9%	31%
Organic	21%	10%	30%
Free-range	23%	7%	30%
Sustainable	18%	7%	25%

■ Slightly more (≤5% price increase)
■ Significantly more (>5% price increase)

Trending claims on beef purchases

"It is critical to provide shoppers with value-based beef meal solutions that fit consumers' needs and lifestyle," Heinrich suggested, again noting his fear of beef becoming a luxury item.

He shared consumer survey results in which environmental issues and treatment of animals ranked high in consumer purchasing decisions, especially for women. Health attributes scored higher on prevalence than even taste or premium attributes.

Grass-fed menu mentions have spiked 20% from 2014. These claims are primarily on menus at local independent operations, he clarified, and fast-casual restaurants are surging in popularity. However, he added that most grass-finished beef found in supermarkets has not been raised in the United States.

"Local" fell slightly in incidence during the past year, possibly due to the trend of more specific location callouts, he noted. The top beef dishes featuring local mentions are burgers of varying kinds, with specialty burgers, cheeseburgers, bacon cheeseburgers and hamburgers topping the list. Ground beef is becoming ever more popular, and more of the carcass is being ground, he's noticed.

Hormone- and antibiotic-free have both increased in menu mentions, each by 48% in the last year, with burgers still driving the trend. While all meat is antibiotic-free due to mandatory withdrawal times, Heinrich predicted that terms like "judicial use" or "responsible use of antibiotics" in marketing of beef will play a large role, and, again, fast-casual burgers are driving the trend.

"We will hit the tipping scale soon of seeing what consumers expect," he explained.

He noted that most packers combine hormone- and antibiotic-free cattle when processing and that adds about $200 per carcass that is passed on to the consumer at about 50¢ per pound.

Conversely, some notable beef descriptors have declined in use, including natural, domestic, farm-raised and steroid-free, though they are still popular with consumers.

Heinrich highlighted some quality indicators that consumers are most willing to pay more for, like hormone-free, antibiotic-free, grass-fed and sustainable (see Fig. 1).

He concluded with other interesting trend tidbits.

- ►In the fresh-meat retail case, 40% of the linear space is now dedicated to cured meats, heat-and-serve, pre-marinated, and tubs of macaroni and cheese and mashed potatoes. Because of price point, he said macaroni and cheese is sometimes replacing beef in the meatcase.
- ►Fresh beef (minus ground beef) has lost nine stock-keeping units. Ground beef, chicken and turkey have all made up the difference.
- ►Retailers are staying away from beef items that retail for more than $6 per pound.
- ►Supermarkets (63% market share) are losing market share to e-commerce sites (3% market share). However, growth of e-commerce is growing 2.5 times faster.
- ►Blue Apron, an ingredient and recipe delivery service, is delivering more than 3 million meals per month.
- ►Total U.S. restaurant numbers fell 2%, and fast-casual restaurants are up 5%.
- ►Will all-day breakfast at McDonald's hurt beef sales?
- ►Where do we stand with Brazil and Argentina importing beef to the United States?

Antibiotic stewardship white paper available now

The issue of antibiotic resistance is complex and has been the topic of discussion for several years. At this year's antibiotic symposium, Antibiotic Stewardship: From Metrics to Management, funded in part by the beef checkoff, experts and other stakeholders gathered to continue the conversation.

Access the 2015 Antibiotics Symposium White Paper at *http://bit.ly/1RI4sLF*.

The symposium was developed by the National Institute for Animal Agriculture (NIAA) and was conducted Nov. 3-5, 2015, in Atlanta, Ga. It was a continuation of discussions and sharing of information that commenced with the Oct. 26-27, 2011, Antibiotic Use in Food Animals: A Dialogue for a Common Purpose symposium conducted in Chicago, Ill.; and has continued yearly since.

The 2015 symposium addressed the issue of how to determine the success of current and planned efforts to improve antibiotic use in animal and human health. As at the preceding symposia, the 2015 conference combined information delivered during plenary sessions with facilitated discussions in breakout groups, each of which had defined tasks for developing output.

"Antibiotics have been critical in human and veterinary medicine since the 1940s, and antibiotic resistance has been a challenge almost as long," said Robert Tauxe, deputy director of the Division of Foodborne, Waterborne and Environmental Diseases, National Center for Emerging and Zoonotic Infectious Diseases at the Centers for Disease Control and Prevention (CDC). "Thus, with the ever-changing antibiotic landscape, research, education and constantly improving stewardship is imperative."

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— Adapted from a release by Melissa Jackson, Cattlemen's Beef Board