Navigating Through the Perfect Storm

The Pork Checkoff Outlook for 2010
2009: The Promise Ahead
 Presentation to the Swine Extension Educators
 January 8, 2009
 Chris Novak
 National Pork Board
The Pork Industry’s Perfect Storm

- Global Economic Recession
- Feed Input Increases
- Increased Productivity & Supply
- Political Trade Barriers
- H1N1 Market Impact
Understanding the Impact on Pork Producers
Our Vision for Navigating the Storm

Leading a World-Class Food Industry

Overview

– 3 Points on H1N1
– Growing Demand at a Critical Time
– A Fresh Look at The Other White Meat
– 1 Point on We Care
– A New Vision of Our Future?
H1N1
The Pork Industry Response
Point # 1: A Collaborative Effort

- National Pork Board
- National Pork Producers Council
- American Association of Swine Veterinarians
- State Pork Organizations
- American Meat Institute
- U.S. Meat Export Federation
- National Swine Registry
Point # 2: An Aggressive Response

- WSJ & USA Today
- Los Angeles Times
- Washington Post
- Chicago Tribune
- Houston Chronicle
- Seattle Times
- San Francisco Chronicle
- Arizona Republic (Phoenix)
- Miami Herald
- Boston Globe
- San Diego Union Tribune
- News & Observer (Raleigh)
- Philadelphia Inquirer

Let’s keep pork—and all the facts—on the table.

As America’s pork producers, we go to work every day recognizing a serious responsibility to provide safe, wholesome food for a growing population.

And while we all need to be appropriately concerned about the flu that is currently spreading, we want you to know we go to great lengths to ensure the safety of every pork product you serve to your family.

Simply put, pork is safe. This is a fact supported by the experts:

“You cannot get H1N1 flu from eating pork. Pork products are perfectly safe.”
—U.S. Secretary of Homeland Security Janet Napolitano

“You cannot get this flu from eating pork or pork products.”
—Centers for Disease Control and Prevention

We invite you to keep enjoying delicious and versatile pork, as we do with our families. Because as America’s pork producers, we’re dedicated to making sure pork is—and will continue to be—safe.

Get the facts about pork at FactsAboutPork.com.

Steve Weaver
President, National Pork Board
California Pork Producer
Point # 3: Aggressive Retail Promotions Did Have a Positive Impact on Fresh Pork Tonnage

Each quarter in 2009 has outperformed last year’s tonnage

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>YTD</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>+13.8%</td>
<td>+1.3%</td>
<td>+13.4%</td>
<td>+9.3%</td>
</tr>
</tbody>
</table>

- **Easter ’09 = Apr vs. Mar ’08**
- **WHO raises level from 4 to 5**
- **July 4th ’09 = Sat. vs. Friday in ’08**
- **Labor Day ’09**
- **Labor Day ’08**
Growing Pork Demand at a Critical Time
2009 Exports are well-below 2008 levels

... But 5% over 2004-07 trend

U.S. PORK EXPORTS - MONTHLY

Mil. lbs. carc.

- U.S. Pork Exports
- 04-07 Trend
- Expon. (U.S. Pork Exports)

October '09:
-3.6% vs. 2008
+20.1% vs. 2007

Paragon Economics, Inc.
The Fall Pork Value Campaign

PICK UP PORK, THE ALL-AMERICAN VALUE!

There’s never been a better time to celebrate healthy, convenient, delicious pork. So enjoy the terrific deals and easy meals you get with pork. And bring home a great American value for your family!

America’s pork producers are proud to provide families across the country with good food at a great value.

American Pride Pork Chop recipe on TheOtherWhiteMeat.com

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Don’t be bland.

pork checkoff
Your Investment. Your Future.
Pick Up Pork—The All-American Value

- Retail Promotion (including a major effort with Kroger)
- National and State Advertising and Online Efforts
- Press Materials to National Media (week of October 5th) including:
  - Internet press kits
  - national mat release for newspapers.
  - Four new recipes and photos
- Campaign featured three pork-producing families representing good food made by good people.
- All of the press materials were available for customization by the state associations to expand the outreach and impact.
## Pick Up Pork State Involvement

<table>
<thead>
<tr>
<th>Pick Up Pork Retail POS Kits</th>
<th>Pick Up Pork Print or Outdoor Ad Use</th>
<th>Pick Up Pork Radio Ad Use</th>
</tr>
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<tbody>
<tr>
<td>Wisconsin</td>
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<td>Illinois</td>
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<td>Illinois</td>
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</table>
Moving in the Right Direction

U.S. NEG'D NET PRICE, WTD. AVERAGE

$/cwt carcass

- 2009
- 2008
- Avg '03-'07

October-December rally of over $12/cwt or $24/head!
Taking a Fresh Look at The Other White Meat Campaign
Understanding What Moms Want . . .

In a Year-Long Consumer Study We Determined …

- “The Other White Meat” has very high consumer recognition (over 90%).
- “Don’t be blah” has little consumer recognition and little or no value as a marketing tool.
- Consumers defined their values for buying protein: – ease of preparation/convenience, taste and flavor, versatility, affordability and nutrition. Pork ranks lowest in ease of preparation and versatility.
- Consumers still struggle with properly cooking pork.
- Consumers say The Other White Meat Brand means “a healthy alternative to chicken,” but it does not motivate consumers to buy pork.
Consumer Perceptions of Pork

Consumer focus groups indicate there are underlying barriers that result in negative perceptions about cooking pork.

"I don’t cook pork for my family"

"I’ve tried it and the results are inconsistent – it usually turns out dry and tough"

**Comments About Pork**
- It’s never as good as my Mom made
- Beef and chicken are more forgiving
- Not a good ingredient for recipes
- Not good for leftovers
- Too tough for children to chew
- Can’t use alternative cooking methods to frying

"I have no confidence cooking pork"
Pork Consumer Perceptions

Consumers say they will eat more pork if …

- There are more recipes they feel will succeed
- They had basic information about how to cook pork
- They were more aware of cuts and choices
- Pork was more tender (overcooking)

Additional Quantitative Findings

- 3 out of 4 say pork must be cooked thoroughly or well-done to eat regardless of safety concerns or recipes
- 7 out of 10 do not believe pork health claims are supported by science
Brand Positioning
Recommendations

- We are putting “Don’t be blah” on the shelf
- 2010 marketing will focus on overcooking—as identified by all research groups as the primary barrier
- This singular focus on cooking education in all marketing, advertising, PR, food service, retail and online communication is a new approach from past practice.
- The Other White Meat still has some value, but may no longer be differentiating pork. We are considering replacing and rejuvenating it to better reach our audience.
- We will be developing and testing a new brand position in 2010 with a proposed launch in 2011. **We will improve the U.S. consumer preference for pork!**
Making “We Care” a Way of Life
Ethical Principles of the U.S. Pork Industry

To promote confidence and trust in what we do and who we are, we affirm our obligation to:

- Produce safe food
- Protect and promote animal well-being
- Ensure practices that protect public health
- Safeguard natural resources in all of our practices
- Provide a work environment that is safe and consistent with our other ethical principles.
- Contribute to a better quality of life in our communities
Doing What’s Right—Because Nobody Cares More!

- PQA Plus
- TQA
- Nutrient Management Planning
- Carbon Footprint
- Operation Main Street
- HR Toolkit
One Message: It’s Working

Thank You!
A New Vision of a Brighter Future?
Strategic Planning Challenge

How can the National Pork Board best target its resources for maximum impact as it seeks to lead the industry back to profitability and long term growth?
The pork industry has consolidated over the last several decades and is dominated by a few major players.

**Share of Annual U.S. Hog Slaughter by Firm Size**

(THOUSAND HEAD MARKETED ANNUALLY)

Note: In 1988 and 1991, 50,000+ head was the largest size category; in 1994 a larger category was created.

Source: Glenn Grimes - U.S. Pork Industry Structure
Per capita consumption for pork in the U.S. has remained relatively constant over the last thirty years.

Source: USDA Agricultural Projections to 2018; USDA
The U.S., Canada and Brazil are recognized as lowest cost hog producers.

**Costs of Producing Hogs, 2002**

- **Source:** Sparks Companies – Global Livestock, Meat and Poultry Competition
USDA projects pork exports to remain around 20% of production over the next decade; others predict continued growth.
Several staff members of NPB and NPPC also contributed input into the process.
Sources of Input to the Strategic Process

- Informed Futurists Panel
- Telephone Interviews
- Written Reports
- Survey Instrument
- Regional Meetings
- Committee Chairs

THG

Analyze & Synthesize

Staff Team

Advise & Guide

Planning Task Force

Makes Recommendations
NPB Vision Statement

Leading a World-Class Food Industry

A frequently voiced comment throughout this process was, “NPB is great at creating new programs. It is not as effective in eliminating programs.”

NPB’s plan for 2008 had:

- 5 Critical Issues
- 23 Desired Outcomes
- 120 Tactics

An effective strategy needs focus, focus, focus.

The Task Force strongly recommends that NPB adopt a sharper focus on a shorter list of goals.
Prioritizing Our Investments & Resources

High Impact
- The activity must capitalize on a major opportunity that could greatly improve the industry’s profit potential.
  
  *or, alternatively,*

- The activity must minimize a potential industry threat that could “bring the industry to its knees.”

No Overlap
- The activity must address a need that private industry cannot or will not accomplish on its own.

Industry-Wide Benefit
- The activity must benefit the entire industry, not just a segment of the industry.
Preliminary Recommendations: 3 Critical Issues

- **Maintain Operating Freedom.** Protect the rights and ability of the industry to produce hogs in a socially responsible and cost competitive manner.

- **Enhance Demand.** Refresh and reposition the image of US pork to increase domestic and international consumer demand.

- **Strengthen US Pork’s Competitive Global Advantage.** Develop, facilitate, and / or evaluate technologies, policies and strategies that enable the U.S. pork industry to remain highly competitive long-term on a global basis.
Operating Freedom. NPB will protect the rights and ability of U.S. farmers to produce hogs in a socially responsible and cost-competitive manner.

- NPB will evaluate consumer perception, provide timely research, and lead discussions throughout the food chain that result in the adoption of socially responsible best management practices that reflect pork producers’ ethical principles.

- NPB, working with NPPC and state pork organizations, will increase awareness and understanding, among key target audiences, of its stewardship activities and the value of modern production practices. A benchmark survey will measure progress annually.

- NPB, working with NPPC and state pork organizations, will provide pork producers with the tools to assist them in the development of a favorable business climate within their local communities.

- NPB’s issues management efforts will minimize current and emerging threats that endanger consumer demand and/or producer productivity.
Enhanced Demand. NPB will refresh and reposition the image of U.S. pork to increase domestic and international consumer demand.

- Pork farmers will achieve a 10 percent increase in real per capita domestic consumer expenditures for pork, by the end of 2014 compared to 2009.

- NPB and channel partners will increase consumers’ awareness of how to cook pork in a way that results in a juicy, tender and flavorful eating experience, as measured by a 10 percent improvement in a national market survey between 2009 and 2014.

- U. S. annual eatings per capita of fresh pork will be 10 percent higher in 2014 than in 2009 as measured by the NPD Group’s National Eating Trends data.

- The U.S. share of global exports of pork (currently 31.5%) will increase annually between 2009 and 2014 [still being developed by USMEF and NPB.]

- Over the next five years, NPB will continuously evaluate and prioritize domestic and international market opportunities based on their potential for enhancing pork producer profitability and mitigating market risk.
Competitive Global Advantage. NPB will pursue strategies to enable U.S. pork farmers to remain highly competitive long term on a global basis.

- NPB will facilitate and fund research that can be used to address technical barriers in expanding domestic and foreign markets.

- NPB will develop a long-term, multi-year research strategy by January 2011 identifying the most critical issues impacting the profitability of U.S. pork producers and the most appropriate role for NPB in scientific research.
The last debate of the Task Force involved the issue of “producer efficiency.” Everyone agreed that increasing producer efficiency is important to maintain global competitiveness. The debate was over the role, if any, that NPB should play in enhancing producer efficiency. Some argued that private industry now plays that role, and they applied the “No overlap” criteria and concluded that NPB should no longer pursue such research. Others argued that NPB’s role in producer efficiency should decline, but there are still some areas where NPB should play a role:

- Facilitating genomic research and functional genomics
- Monitoring public and private research and stimulating research in the gaps

An earlier version of the report had an additional Desired Outcome as shown below:

- NPB will assist U.S. pork farmers to remain cost competitive on a global basis, as measured by third-party analysis, by facilitating and funding research in critical areas not addressed by public or private organizations.

The final decision of the Task Force was to delete this Desired Outcome.
## Results of All Responders

How significant are the following forces?

<table>
<thead>
<tr>
<th>Program Area</th>
<th>N</th>
<th>4</th>
<th>5</th>
<th>4 &amp; 5</th>
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<tbody>
<tr>
<td>Activist groups</td>
<td>394</td>
<td>29%</td>
<td>62%</td>
<td>90%</td>
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<tr>
<td>Environmental regulation</td>
<td>391</td>
<td>37%</td>
<td>45%</td>
<td>82%</td>
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<tr>
<td>Limited access to export markets</td>
<td>389</td>
<td>39%</td>
<td>37%</td>
<td>76%</td>
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<tr>
<td>Growth of pork exports</td>
<td>389</td>
<td>35%</td>
<td>41%</td>
<td>76%</td>
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<tr>
<td>Industry consolidation</td>
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<td>35%</td>
<td>31%</td>
<td>66%</td>
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<tr>
<td>Growth of ethanol production</td>
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<td>29%</td>
<td>31%</td>
<td>61%</td>
</tr>
<tr>
<td>Changes in American eating patterns</td>
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<td>35%</td>
<td>22%</td>
<td>57%</td>
</tr>
<tr>
<td>Animal diseases</td>
<td>390</td>
<td>33%</td>
<td>24%</td>
<td>57%</td>
</tr>
<tr>
<td>Improved pork efficiencies</td>
<td>388</td>
<td>35%</td>
<td>14%</td>
<td>50%</td>
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<tr>
<td>Improved hog genetics</td>
<td>390</td>
<td>36%</td>
<td>13%</td>
<td>49%</td>
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<tr>
<td>Specialized production systems</td>
<td>388</td>
<td>31%</td>
<td>16%</td>
<td>47%</td>
</tr>
<tr>
<td>Growth of chicken consumption</td>
<td>385</td>
<td>29%</td>
<td>9%</td>
<td>37%</td>
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### Results of All Responders

<table>
<thead>
<tr>
<th>How would you allocate NPB resources?</th>
<th>N</th>
<th>Average Allocation</th>
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<tr>
<td><strong>Program Area</strong></td>
<td></td>
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<tr>
<td>Promoting pork exports</td>
<td>363</td>
<td>$15.70</td>
</tr>
<tr>
<td>Promoting domestic pork consumption</td>
<td>363</td>
<td>15.30</td>
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<tr>
<td>Improving the industry’s image</td>
<td>363</td>
<td>14.10</td>
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<tr>
<td>Addressing animal care issues</td>
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<td>12.50</td>
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<td>Communication with consumers on pork</td>
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<td>11.00</td>
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<td>Addressing public health concerns</td>
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<tr>
<td>Enabling producers to address environmental issues</td>
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<td>7.80</td>
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<td>Providing producers tools to meet regulations</td>
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<td>7.10</td>
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<tr>
<td>Improving production efficiencies</td>
<td>363</td>
<td>5.70</td>
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<tr>
<td><strong>Total</strong></td>
<td>363</td>
<td><strong>$100.00</strong></td>
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How important will the following programs be in scientific research and production practices?

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<th>Swine Production Efficiencies</th>
<th>N</th>
<th>Percent of Responses</th>
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<tr>
<td></td>
<td>4</td>
<td>5</td>
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<tr>
<td><strong>Demographic Groups</strong></td>
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<tr>
<td>All responders</td>
<td>376</td>
<td>29%</td>
</tr>
<tr>
<td>Small producers, 1-5,000 hogs</td>
<td>112</td>
<td>36%</td>
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<tr>
<td>Medium producers, 5,001-50,000 hogs</td>
<td>106</td>
<td>29%</td>
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<tr>
<td>Large producers, 50,001-500,000 hogs</td>
<td>43</td>
<td>26%</td>
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<tr>
<td>Mega-producers, 501,000+ hogs</td>
<td>49</td>
<td>25%</td>
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<tr>
<td>North Carolina responders</td>
<td>21</td>
<td>24%</td>
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<tr>
<td>Iowa responders</td>
<td>82</td>
<td>33%</td>
</tr>
<tr>
<td>Staff members</td>
<td>33</td>
<td>33%</td>
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## Disparate Responses by Different Groups

How important will the following programs be to scientific research and production practices?

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<th>Research of Swine Diseases</th>
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<th>5</th>
<th>4 + 5</th>
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<tr>
<td><strong>Demographic Groups</strong></td>
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<td></td>
<td></td>
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<tr>
<td>All responders</td>
<td>378</td>
<td>34%</td>
<td>31%</td>
<td>65%</td>
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<tr>
<td>Small producers, 1-5,000 hogs</td>
<td>112</td>
<td>34%</td>
<td>38%</td>
<td>72%</td>
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<tr>
<td>Medium producers, 5,001-50,000 hogs</td>
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<td>37%</td>
<td>21%</td>
<td>58%</td>
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<td>27%</td>
<td>59%</td>
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<td>24%</td>
<td>57%</td>
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<td>31%</td>
<td>37%</td>
<td>69%</td>
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<td>33%</td>
<td>49%</td>
<td>82%</td>
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## Disparate Responses by Different Groups

How important will the following programs be on producer and consumer education?

<table>
<thead>
<tr>
<th>Info to Producers on Efficiencies Topics</th>
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<td><strong>Demographic Groups</strong></td>
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<td>5</td>
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<tr>
<td>All responders</td>
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<td>35%</td>
<td>15%</td>
<td>50%</td>
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<tr>
<td>Medium producers, 5,001-50,000 hogs</td>
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<td>35%</td>
<td>8%</td>
<td>42%</td>
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<tr>
<td>Large producers, 50,001-500,000 hogs</td>
<td>43</td>
<td>23%</td>
<td>5%</td>
<td>28%</td>
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<tr>
<td>Mega-producers, 501,000+ hogs</td>
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<td>25%</td>
<td>4%</td>
<td>29%</td>
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<td>North Carolina responders</td>
<td>21</td>
<td>19%</td>
<td>0%</td>
<td>19%</td>
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<td>Iowa responders</td>
<td>83</td>
<td>36%</td>
<td>16%</td>
<td>52%</td>
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<tr>
<td>Staff members</td>
<td>33</td>
<td>55%</td>
<td>18%</td>
<td>73%</td>
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Next Steps

Board Actions

- Plan Consideration &/or Approval
- Additional Evaluation Processes:
  - Committee Evaluation & Restructuring
  - Long-Term Research Strategy
  - State-National Relations
Historical Revenue and National Spending

- 2010 Revenues down 22%
- Several 2009 programs eliminated
- Priority is on moving product
- Budget consistent with focus and priorities of new strategic plan
A New Beginning... 

- The storm is rough, but there is a brighter future ahead.
- We are sharpening our focus, refining our priorities, and addressing critical challenges facing the pork industry.
- We are working to find new and innovative ways to make a positive impact for producers.
- We are:

  Leading a World-Class Food Industry
  
Thank You!