Evaluation and Results Report

On the

National Peanut Board's
Domestic Peanut Market Program
1^{nd} Quarter 2005-3^{rd} Quarter 2009

By

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Peanuts are a legume crop and highly nutritious. The crop is grown mainly in the Southern region of the United States. Till the 2002 Farm Bill, peanuts had a supply management along with a price support program. Not every farmer could produce peanuts for the U.S. domestic market. A quota system existed based on historical production period. USDA would each year determine the U.S. demand for peanuts for domestic consumption and would set the quota to the demand. Thus, a supply management system was in place that eliminated peaks and valleys in production and price swings as experienced by other agricultural commodities. To maintain the integrity of this system, significant import restrictions were in place. However, in the 1990s, changes started to occur. New trade agreements were being negotiated in order to increase world society welfare. The two key trade agreements that impacted the U.S. peanut industry were the North American Free Trade Agreement (NAFTA) and the Uruguay Round of GATT negotiations which created WTO. These agreements eliminated the strict import restrictions (i.e., Section 22) and replaced them with tariff rate quotas and declining tariff rates. Given the significant difference in the mandated domestic price support and the world price, peanut imports started coming into the U.S. domestic market. In the 2002 Farm Bill the peanut program was changed to a market oriented system. The quota system was eliminated and the support price was significantly reduced from $610 to $355 per ton farmer stock basis in order to compete in the world market.

In 1996 which was the low peanut consumption in the previous 10 years, the peanut industry decided to examine U.S. consumer attitudes and consumption of peanuts and peanut products. Thus, the industry funded a national market survey conducted by the Gallup Organization. This survey was based on 2,880 telephone interviews. Of these interviews, 991 detailed interviews were with peanut butter users, 1,002 detailed interviews were with snack peanut users, and 507 detailed interviews were with inshell peanut users. While peanuts are a very nutritious food item, the findings showed that a significant proportion of the U.S. population was not consuming peanuts and peanut products. In 1996, approximately 13% of the U.S. population did not consume peanuts in the last 12 months. Approximately 26% of the U.S. population had not consumed peanut butter in the previous 12 months; 35% did not consume snack peanuts and 58% did not consume inshell peanuts. This information jolted peanut farmers. While 72% of the population felt that peanut butter was a good value, 41% felt that peanut butter is high in cholesterol. This finding was shocking in that peanuts do not contain ANY cholesterol. While there are different kinds of fat, consumers did not know which type of fat peanuts contain and thus it appeared that peanuts were lumped in the general category of fat.

Formation of the National Peanut Board

Led by the American Farm Bureau Federation's Peanut Commodity Committee, a series of peanut grower meetings were held in 1997 and 1998 to discuss the formation of a national checkoff organization. Each of the peanut state checkoff organizations as well as peanut farmer organizations participated in these meetings. In 1999, the peanut leadership through the USDA put together an order to be voted by the nation's peanut producers. This referendum was approved by the U.S. peanut producers in 1999.

Beginning operations in the spring of 2000, the Atlanta-based National Peanut Board (NPB) became a U.S. peanut farmer-funded research and promotions commodity board. A ten-member Board, comprised of peanut farmers representing each of the major peanut producing states and an at-large member representing the minor states began to focus on increasing consumption of USA-grown peanuts and peanut products. Through research and marketing initiatives, the board worked to find new ways to enhance production for farmers and increase consumer demand by promoting the great taste, nutrition and culinary versatility of USA-grown peanuts.

The National Peanut Board was created pursuant to the Commodity Promotion, Research, and Information Act of 1996 (7 U.S.C. 7401-7425; Public Law 104-127, 110 Stat. 1029, Dated April 4, 1996) and the Peanut Promotion, Research, and Information Order (Part 1216, Dated July 26, 1999). The United States Department of Agriculture's Agricultural Marketing Service oversees the operations of the National Peanut Board in accordance with the act and the order. Under the order, all domestic peanut producers are assessed at the rate of 1 percent of the total value of all farmer stock peanuts at the first exchange. The Peanut Promotion, Research and Information Order also require that a re-affirmation referendum be held every five years with all current peanut producers. The program was reaffirmed in 2004 with an 83% vote and for a second time in 2009 with an 89% vote.

The order was developed to finance an effective and coordinated program of generic promotion, consumer information and related research designed to maintain and expand markets for peanuts. The research could be any type of test, study, or analysis designed to advance the image, desirability, use, marketability, production, product development, or quality of peanuts, including research relating to nutritional value and cost of production.

In pursuit of its overarching goal of stimulating consumer demand for all USA-grown peanuts, NPB works to communicate the differentiated value, positive nutritional attributes, versatility, portability and great taste of USA-grown peanuts, peanut butter and peanut products. NPB undertakes marketing programs domestically and internationally to reach that goal, working to spark new uses for USA-grown peanuts and peanut butter and to encourage the creation of innovative peanut products. Through partnerships with other commodity groups, manufacturers and foodservice, NPB helps extend the message-reach and bring USA-grown peanuts to places they have never been before.

The Mission Statement of the NPB is as follows:

> The National Peanut Board is a farmer-funded, farmer driven program representing all USA peanut farmers and their families. Through research, education and marketing initiatives, the Board works to improve efficiencies for peanut farmers and promote the great taste, nutrition and culinary versatility of USA-grown peanuts.

The focus of this report is an evaluation and report on the National Peanut Board's domestic peanut marketing and promotion program. During this period of analysis, the NPB allocated $22.197 million dollars of new money to increase the demand for USA peanuts. This report will focus on three key areas. The first area is perception changes by the U.S. consumer in regards to peanuts. One needs to change perception in order to increase consumption of a product. The second area of focus is on the consumption trends both at the national level. Finally, an econometric study of the ROI on the NPB's generic advertising/promotion program will be addressed.

A key note needs to be made. The second period of the existence of the National Peanut Board has been very challenging not only to them but also to the peanut industry as a whole. The beginning of 2007 saw the first salmonella food safety recall of Peter Pan peanut butter as well as Wal Mart's peanut butter brand. Approximately 2 years later, end of 2008 and the beginning of 2009, salmonella was found in peanut products that had peanut ingredients (peanut butter paste and shelled peanuts) coming from Peanut Company of America. While this company supplied less that 2% of the peanuts to manufacturers, this event lead to the largest food recall in U.S. history with over 3,000 products recalled.

National Peanut Board's Promotion/Advertising Activities

To accomplish their mission, the NPB through a series of strategic planning meetings, focus groups and other means developed a well focused promotion and advertising activities. A sample of their activities is as follows:

- Consumer National Advertising - key focus on the taste, nutrition benefits and news to increase awareness, preference and usage of peanuts and peanut butter in and away from home
- Out of Home Advertising targeted to high opportunity/large population base
- National Public Relations - news coverage nationally - print, broadcast - major networks and local and regional media outlets - communicating the nutritional and taste messages
- National Spokespeople in nutrition and other lifestyle marketing to build third party endorsements of USA peanuts and peanut butter quality and nutritional benefits
- Major consumer events with growers interacting and educating during and after the salmonella crisis
- Launch of intensive social media outlets, such as Facebook, Twitter, Flick, You Tube
- National Promotions throughout the U.S. reaching consumers
- Supporting the launch and promotion of new products nationally
- National School and Education Programs - Weekly Reader and Buddy McNutty (mascot and ambassador of NPB)
- Retail Sales Promotions in Supermarkets
- National Outreach Program to Foodservice Industry to position peanuts as key menu ingredient
- Promotion Co-ops With Other U.S. Commodity Partnerships to stretch dollars and programs - New York Apple Association, National Cattlemen Beef Association, National Pork Board, American Lamb Board, USA Pears, National Mango Board, California Raisin Marketing Board, California Fig Board and Idaho Potatoes
- Major Web Site developed as consumer, education outreach

The NPB has instituted a food allergy education and management program in concert with The Culinary Institute of America. It is on their prochef.com site and has been getting a lot of positive response since its launch last year. This activity is contributing to the strong foodservice performance.

During the 2009 Salmonella crisis the NPB contacted over 1,400 foodservice professionals from their database to constantly update them and provide information on the crisis. NPB helped them navigate the purchase of products that were safe and helped them communicate to their customers.

Two good examples of NPB’s direct contact and support are Dairy Queen and T.G.I. Friday's on the foodservice front. They helped Dairy Queen assess whether they should proceed with a major peanut-base promotion in April 2009 and how to communicate with their large franchisee base. From the NPB’s consumer continuous tracking study that NPB conducted for three months during the crisis they were able to share consumer attitudes about promotion and advertising during the period. Their surveys indicated that 91 percent of consumers said that it was okay to advertise and promote during 2009 salmonella crisis. This information also helped the NPB to demonstrate how consumers were returning to peanut products. This information and support was important in keeping the nationwide promotion on schedule and helping to educate the franchisee community.

T.G.I. Friday's attributes the addition of their three new peanut menu items to NPB's education and marketing support at The Culinary Institute of America conferences. The NPB has met with Al Good, Research Chef, over the past three years and have worked to stimulate new product development. This year they have added the three products and introduced two of them around the salmonella crisis period. T.G.I. Friday’s used good practices that are part of the food allergy management tool on the CIA prochef.com website.

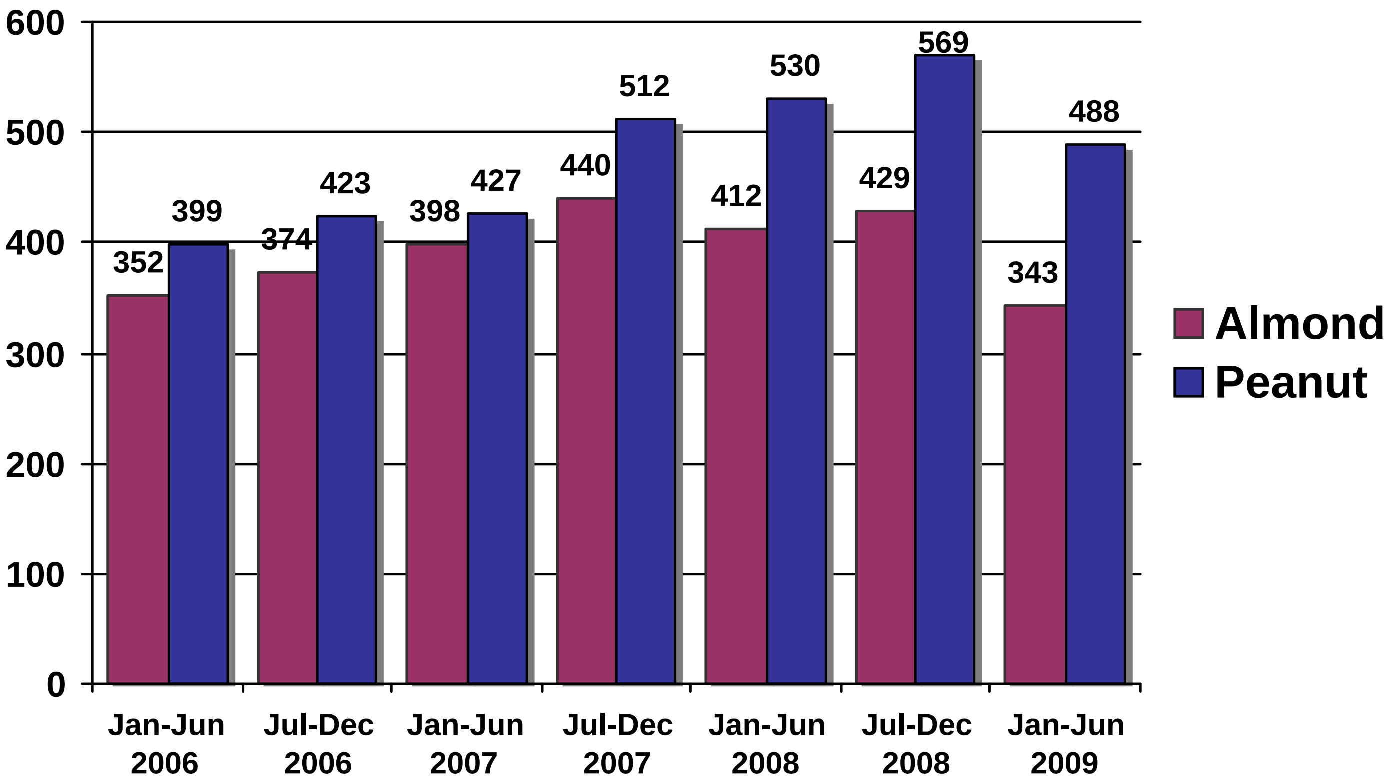
During the 2009 salmonella crisis NPB worked directly with twelve brand manufacturers in major sampling and promotion of products, including, Planter's, Lance, Moon Pie, Dove Bar, Hampton Farms, Sunland, Peanut Butter & Company, Jif and New York Apple, among others. In addition, NPB helped stimulate and support Moon Pie's introduction of their new Peanut Butter Moon Pie product which was introduced in the middle of the crisis.

NPB has partnered with U.S. commodities as listed above, as well as with numerous branded products in product development and promotion, such as Haagen-Dazs and Edy's on new promotional smoothie flavors which have been presented at the National Restaurant Association Trade Show, as well as peanut menu development with chains such as Houlihan's, Chili's, Red Robin, P.F. Chang's and in other chains such as AMC Theaters.

NPB has stimulated new products in categories that have previously been absent of real innovation. For example, NPB stimulated Peanut Butter & Company to develop and introduce new baking mixes using peanut flour in the baking category in the retail marketplace. As well, as Pure Power, an all natural energy bar that is made with peanut flour, peanuts, peanut butter and dried fruit. This product is also gluten-free so it reaches a growing segment of the population with a high protein - but just as important - a product in the category that tastes great.

The use of peanuts and peanut products in the foodservice sector has been minimal. Thus this is one the areas that the NPB has targeted in their program which is evident in their mission statement and the above listed activities. The NPB has been actively marketing the culinary and nutritional benefits of peanuts to the foodservice industry to enhance the image of peanuts and to increase their usage as a key ingredient. Peanut menu listings have increased 22.3% between the January-June 2006 and the January-June 2009 menu periods (Figure 1). In contrast, almond listings have seen a net decline of -2.56%. Based on the analysis, the indication is that the NPB foodservice program is making significant strides.

Figure 1. Widening the Gap Between Peanuts and Almonds on Restaurant Chain Menus



Source: MenuMonitor, Technomic, Inc., 2009. Top 500 restaurant chains, emerging restaurant chains, Top Independent operators menus.

The NPB has continued to have a Scientific Advisory Council that provide advice and input to NPB's efforts to find solutions to peanut allergy issues and provide a foundation for science-based outreach programs (e.g., school boards). This activity has been extremely successful.

During the 2009 salmonella crisis, the NPB took a bold step in putting on a major media event in New York City. While this event was being planned prior to the salmonella crisis, the NPB did not stop. Based on their continuous consumer tracking study, they determined the best option is go ahead and hold the event. Besides aiming for the consumers, this event had a significant positive impact on peanut growers. At this event, the NPB unveiled their new promotion slogan.

PEANUTS:
ENERGY for the good Life.
nationalpeanutboard.org

This slogan is the cornerstone of all of the current NPB promotion and advertising activities.

Peanut Perceptions

As was found in the 1996 Gallup peanut survey, U.S. consumers had several misconceptions about peanuts and their nutrition value. As mentioned earlier, 41% of the consumers thought peanut butter was high in cholesterol. One must address perceptions before purchase patterns can be influenced. Thus, the National Peanut Board has contracted with The Bantam Group organization to do studies involving focus groups and survey of consumers in order to track peanut perceptions over time. The first study was conducted December 2001 and serves as the benchmark. After two years of NPB programs being in effect, The Bantam Group conducted another study in December 2003 so that the NPB can evaluate whether any changes in consumer perceptions occurred. Then, in November 2006, The Bantam Group conducted another study. From their reports, I pulled several of their charts (Figures 8-12) and tables (Tables 1-6) that would address whether the NPB programs were working. The November 2006 survey will not be totally compatible to the prior studies. The reason is that the two December surveys were conducted during the holiday season while the last survey was conducted prior to the holiday season. While the questions were basically the same, the change in season could influence the results some.

Tables 1 and 2 dealt with the perception of what snack foods and sandwiches that comes to mind when one wants something that tastes really good. In both cases, consumers had a more positive perception of peanuts tasting really good relative to either the 2001 or 2003 survey. Peanut butter and peanut butter and jelly maintained its third place ranking.

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Table 1. Snack Foods That Come To Mind When You Want Something THAT TASTES REALLY GOOD…

Peanuts moved up two rankings. Peanut butter held position.

Snack Food Category	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=567)	Ranking Nov '06 (n=1,000)	Change in Rank
Fruits	1	2	1	+1
Ice Cream	3	3	2	+1
Chips	2	1	3	-2
Cookies	5	4	4	NC
Popcorn	7	5	5	NC
Chocolate	6	6	6	NC
Other nuts	NA	NA	T7	NA
Candy Bars	4	T7	T7	NC
Candy	8	T7	9	-2
Cake	T9	9	T10	-1
Peanuts	14	14	T12	+2
Crackers	T9	10	15	-5
Peanut Butter	22	16	16	NC

Proprietary & Confidential Q16. Please name all the snack food items that come to mind when you want something that tastes really good. The Bantam Group, Inc.®

THE BANTAM GROUP Intelligence. Applied.

Table 2. Sandwiches That Come To Mind When You Want Something THAT TASTES REALLY GOOD…

Peanut Butter and Jelly held #3 ranking

Sandwich Type	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=567)	Ranking Nov '06 (n=1000)	Change in Rank
Ham / Ham & Cheese	1	1	1	NC
Turkey	2	2	2	NC
Peanut Butter / PB & Jelly	6	3	3	NC
Tuna / Tuna Salad	5	4	4	NC
Cold Cuts / Deli / Sub	4	7	5	+2
Roast Beef	8	8	6	+2
Burgers	7	6	7	-1
Chicken / Chicken Salad	3	5	9	-4
Cheese / Grilled Cheese	9	9	10	-1
Bologna / Bologna & Cheese	10	10	11	-1

Proprietary & Confidential Q20. Please name all the types of sandwiches that come to mind when you want something that tastes really good. The Bantam Group, Inc.®

Tables 3 and 4 address the healthy or nutritious perception of peanuts as a snack food category or as a sandwich. Once again, the NPB program has had a significant impact on this perception where the rank of the peanut categories increased.

Table 3. Snack Foods That Come To Mind When You Want Something HEALTHY or NUTRITIOUS…

Nuts moved up three points to 4th ranking.
Peanut Butter moved up four to 7th .
Peanuts tied for 10th position with Pretzels.

Snack Food Category	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=567)	Ranking Nov '06 (n=1000)	Change in Rank
Fruits	1	1	1	NC
Veggies	2	2	2	NC
Popcorn	4	5	3	+2
Breakfast Bars	3	3	T4	-1
Nuts (variety not specified)	8	7	T4	+3
Cheese	5	6	6	NC
Peanut Butter	16	11	7	+4
Crackers	7	T9	T8	+1
Yogurt / Pudding / Jell-O	6	4	T8	-4
Peanuts	11	8	T10	-2
Pretzels	N/A	T9	T10	-1
Cereal	10	12	T12	NC
Bread/Pasta	9	13	T12	+1

Proprietary & Confidential   Q15. Please name all the snack food items that come to mind when you want something healthy or nutritious.   The Bantam Group, Inc.™

Table 4. Sandwiches That Come To Mind When You Want Something HEALTHY or NUTRITIOUS…

PB&J moved up to 4th ranking

Sandwich Type	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=567)	Ranking Nov '06 (n=567)	Change in Rank
Turkey	1	1	1	NC
Tuna	3	2	2	NC
Ham / Ham & Cheese	2	4	3	+1
Peanut Butter / PB & Jelly	5	5	4	+1
Chicken	4	3	5	-2
Egg / Egg Salad	9	9	6	+3
Cheese	6	6	7	-1
Tomato / Veggie	10	10	8	+2
Subway	8	T7	9	-2
Roast Beef	7	T7	10	-3

Proprietary & Confidential   Q19. Please name all the types of sandwiches that come to mind when you want something healthy or nutritious.   The Bantam Group, Inc.™

Tables 5 and 6 dealt with the perception of something easy to eat on the go. As a snack food, peanuts maintained improvement from the base year survey of 2001 with little change from the 2003 survey. While for peanut butter sandwiches, no change occurred as this sandwich was consider the easiest sandwich that was easy to eat on the go.

Table 5. Snack Foods That Come To Mind When You Want Something EASY-TO-EAT ON-THE-GO…

Peanuts moved up to 8th ranking with Popcorn

Snack Food Category	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=997)	Ranking Nov '06 (n=1,000)	Change in Rank
Fruits	1	1	1	NC
Chips	2	2	2	NC
Breakfast Bars	3	3	3	NC
Crackers	5	5	4	+1
Candy Bars	4	4	5	-1
Cookies	6	10	T6	+4
Other nuts	NA	NA	T6	NA
Popcorn	8	6	T8	-2
Peanuts	11	9	T8	+1
Candy	7	11	T9	+2
Veggies	9	8	T9	-1
Pretzels	10	7	12	-5
Peanut Butter	23	T15	15	NC
Crackers w/Peanut Butter	22	T15	16	-1

Q14. Please name all the snack food items that come to mind when you want something easy-to-eat on-the-go.

Table 6. Sandwiches That Come To Mind When You Want Something EASY-TO-EAT ON-THE-GO…

PB&J holds the #1 position

Sandwich Type	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=997)	Ranking Nov '06 (n=1,000)	Change in Rank
Peanut Butter / PB & Jelly	1	1	1	NC
Ham / Ham & Cheese	2	2	T2	NC
Turkey	3	3	T2	+1
Cold Cuts	9	10	4	+6
Hamburger	4	5	5	NC
Cheese	6	4	6	-2
Chicken / Chicken Salad	7	7	7	NC
Tuna	5	6	T8	-2
Roast Beef	10	9	T8	+1
Bologna / Bologna & Cheese	8	8	10	-2

Q19. Please name all the types of sandwiches that come to mind when you want something easy-to-eat on-the-go.

In the perception category of fun to eat, Table 7 indicates that peanut butter as a snack food has had a significant improvement. In contrast, peanuts as a snack food saw a slight decrease back to their 2001 perception level. The NPB has been addressing this point since 2006. Consumers are starting to think of peanut butter as a snack as fun to eat more often than prior to the NPB programs.

Table 7. Snack Foods That Come To Mind When You Want Something FUN TO EAT…

Peanut Butter moved up three points to 11th ranking -tied with Breakfast Bars. Peanuts now tied with Cheese at 9th.

Snack Food Category	Ranking Dec '01 (n=1,000)	Ranking Dec '03 (n=597)	Ranking Nov '09 (n=1,000)	Change in Rank
Candy	5	6	1	+5
Popcorn	2	1	T2	-1
Chips	1	2	T2	NC
Ice Cream	3	3	4	-1
Fruits	4	4	5	-1
Cookies	6	5	6	-1
Candy Bars	7	8	7	+1
Other nuts	NA	NA	8	NA
Cheese	NA	NA	T9	NA
Peanuts	T9	7	T9	-2
Breakfast Bars	T9	10	T11	-1
Peanut Butter	19	14	T11	+3
Cake	8	9	17	-8

Proprietary & Confidential | Q17. Please name all the snack food items that come to mind when you want something fun to eat. | The Bantam Group, Inc.

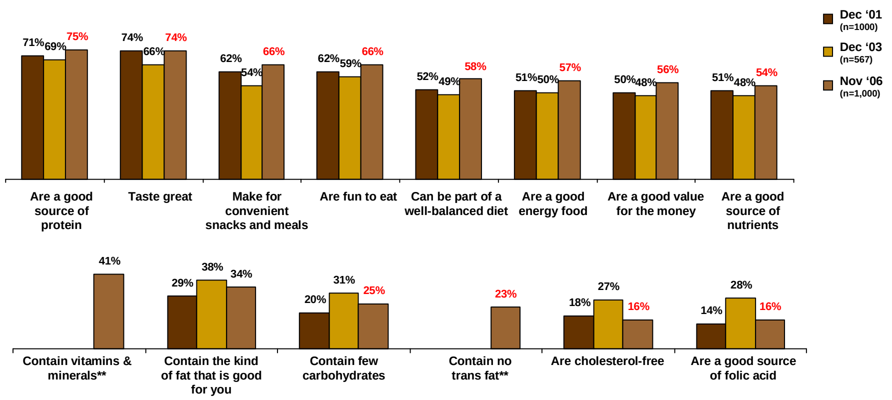
Figure 2 displays the percent of responses that consumers felt each of the product attributes relating to peanuts was very accurate. The red percentage numbers in the figure indicate that there was a statistically significant difference. Thus, the perceptions that peanuts are a good source of protein, taste good, can be part of a well-balanced diet, are a good energy food, are a good value for the money, are a good source of nutrients, contain few carbohydrates, are cholesterol-free and are a good source of folic acid were significantly improved. Similar results were found for peanut butter (Figure 3). This clearly indicates that the NPB domestic programs were being effective in influencing the consumer perceptions of peanuts and peanut products.

THE BANTAM GROUP Intelligence. Applied.

Figure 2. Peanuts . . .

% VERY ACCURATE

Record high levels for 8 out of 14 attributes



Note: Red font indicates significant difference from previous study.

**New in 2006

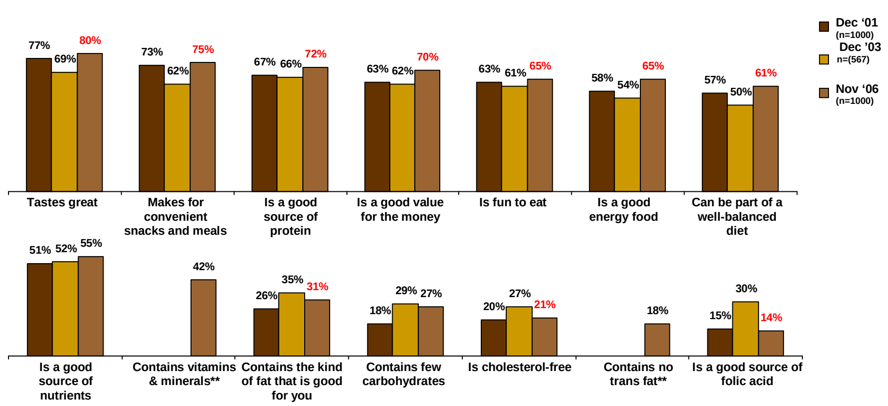
 Q23. For each of the following statements, please tell me whether you feel the statement is very, somewhat, not very, or not at all accurate.

THE BANTAM GROUP Intelligence. Applied.

Figure 3. Peanut Butter . . .

% VERY ACCURATE

Same record high levels for Peanut Butter

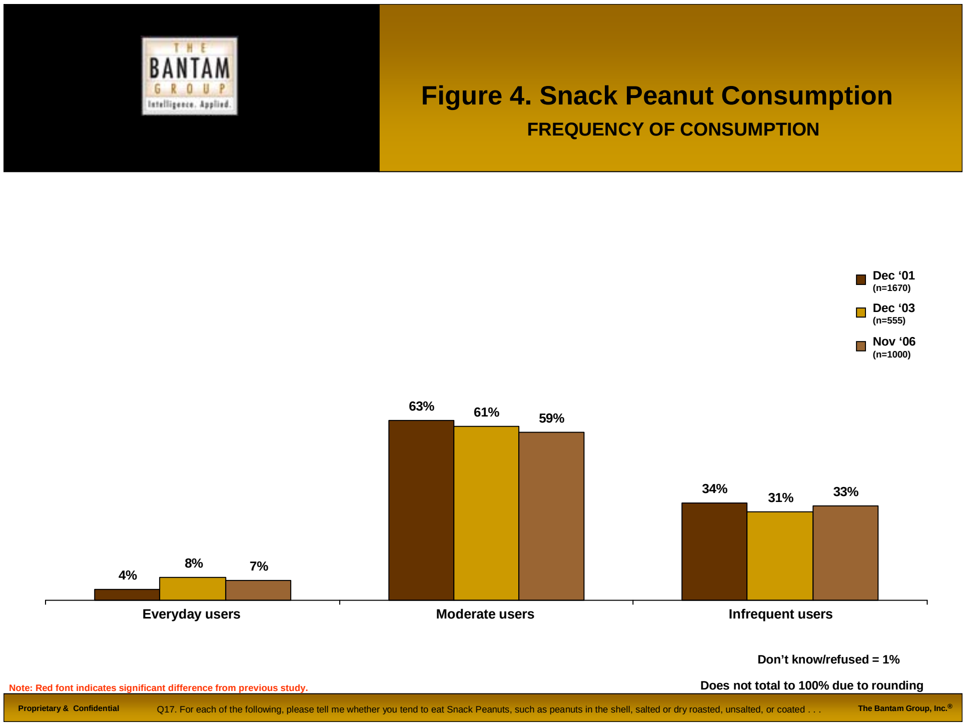


Note: Red font indicates significant difference from previous study.

**New in 2006

 Q24. For each of the following statements, please tell me whether you feel the statement is very, somewhat, not very, or not at all accurate.

Figures 4 and 5 address the snack peanut and peanut butter frequency of use. The frequency of use was broken down into every day users, moderate users and infrequent users. For both peanut categories, there was no statistical difference between the 2003 and 2006 surveys. However, every day users had a statistically significant increase in usage between the 2001 survey and the 2006 survey. This indicates that the NPB programs are still having an influence on perceptions even though there was no statistical increase for the latter two surveys. Once you get the message across, it must be continued in order to maintain the level in the future.



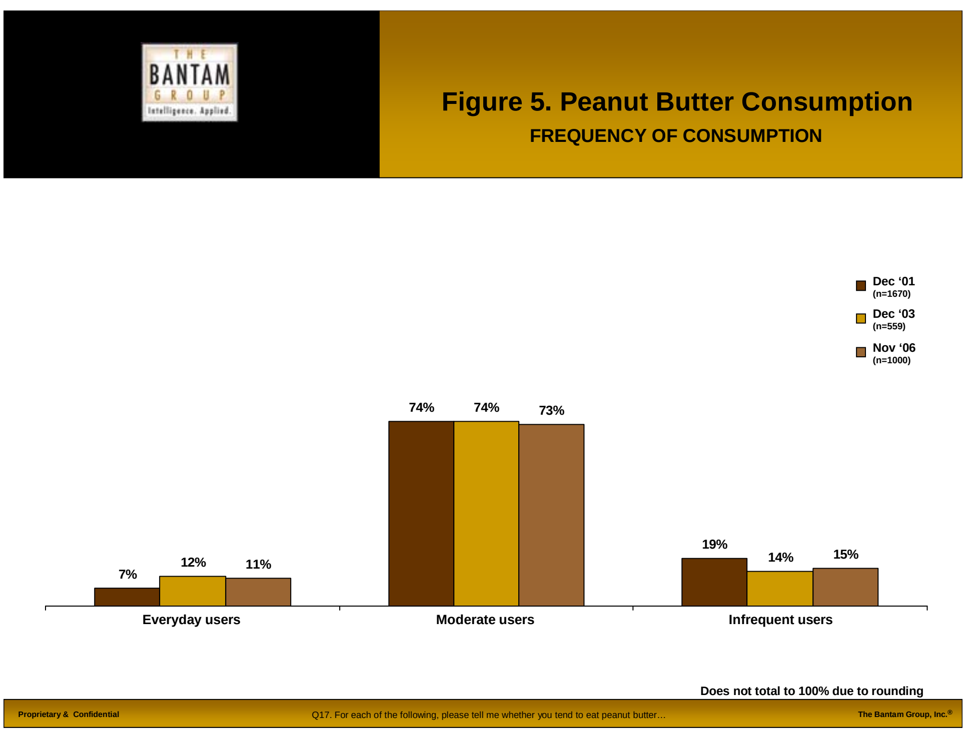


Table 8 addresses households' peanut consumption relative to last year's level. Except for 2003, a larger percentage of households increased their snack peanut consumption relative to decreasing their level. With the 2006 survey results showing a larger percentage increasing relative to decreasing is impressive given that the 2006 survey was done in November while the other 2 surveys were done during the holidays when snack consumption will be up. Peanut butter consumption showed significantly more households increasing than decreasing. For the peanut candy category, an improvement was seen in the 2006 survey results. The percentage decreasing decreased a significant amount.

THE BANTAM GROUP Intelligence. Applied.

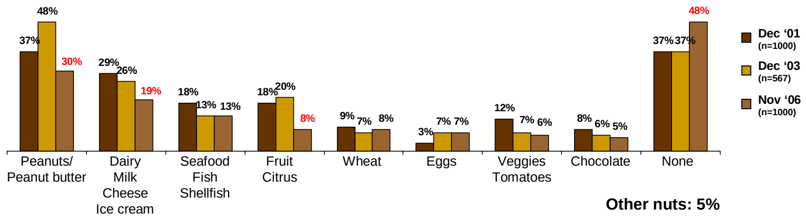
Table 8. Household Consumption In Past Year

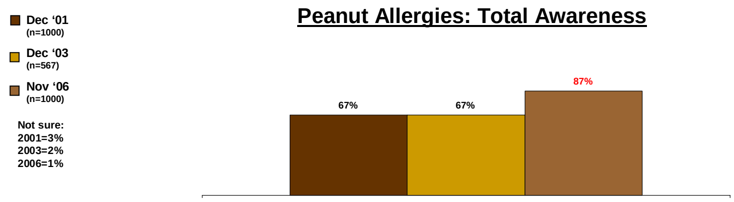
	Increased	Decreased	Stayed Same	Net Difference (% increase - % decrease)
Snack Peanuts				
2001	14%	11%	75%	+3
2003	12%	15%	71%	-3
2006	13%	12%	75%	+1
Peanut Butter				
2001	18%	11%	71%	+7
2003	19%	11%	71%	+8
2006	18%	11%	71%	+7
Peanut Candy				
2001	8%	12%	81%	-4
2003	8%	20%	72%	-12
2006	9%	15%	76%	-6

Q21. Comparing this year to past years, has your household consumption of (READ LIST) increased, decreased, or stayed about the same?

Figures 6 and 7 address the peanut allergy issue. As mentioned earlier, the NPB established a Scientific Advisory Council to aid them in addressing the peanut allergy issue. Figure 6 indicates that based on unaided awareness when survey the consumers, peanuts/peanut butter allergy dropped significantly. Yet, when asked if they knew anyone with a peanut allergy that percentage increased significantly in 2006. In Figure 7, consumers had a significant increase in considering peanut allergy as very serious. These two figures would imply that peanut consumption should be decreasing yet the data does not support those actions. This clearly indicates that the NPB program on the allergy issues is working. If the NPB program was not working and given the consumers' perception on the seriousness, peanut consumption would have dropped drastically.

Figure 6. Food Allergies



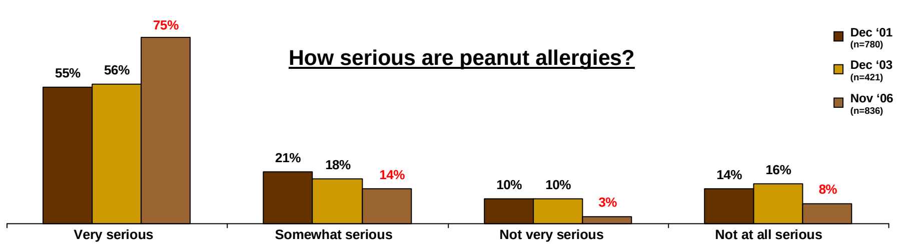


Note: Red font indicates significant difference from previous study.

Figure 7. Peanut Allergies

57% have heard of someone with a peanut allergy.

25% actually know someone with a peanut allergy.



*** Rebased to remove those who said "not sure" or "varies by person"**

Note: Red font indicates significant difference from previous study.

Does not total to 100% due to rounding

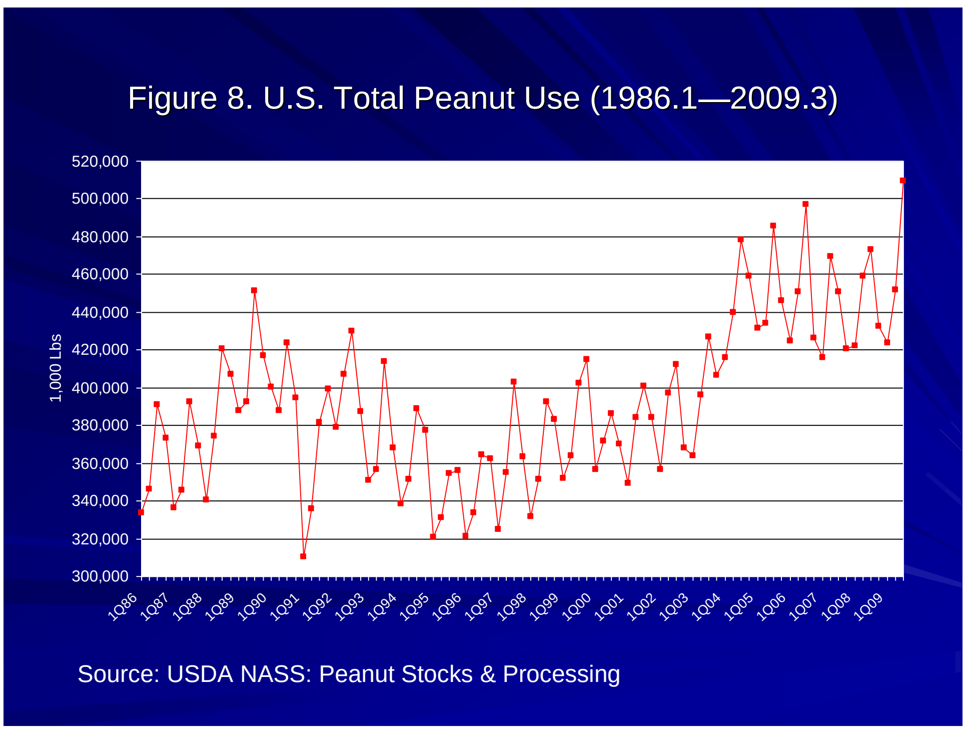
Peanut Consumption Trends

The previous section clearly points out that consumer's perceptions of peanuts and peanut products have improved since the start of the NPB programs. If an associated increase in peanut consumption has not occurred, one could question the value of the previous work though there have been some major events that could dampen the increase. As mentioned earlier, the peanut industry has had to endure two major food safety issues, one in 2007 and the second in 2009. Both of them dealt with salmonella. In fact, the 2009 recall was the largest food recall in U.S. history with over 3,400 products recalled.

This section examines the peanut consumption trends. Two sources of data are used in this analysis. The first source is the USDA-NASS Peanut Stocks and Processing Reports. The peanut industry utilizes this data source in tracking peanut usage nationwide. However, there are issues that one must be aware when examining this data source. First, the data reflects the amount of peanuts that are going into the processing of various peanut products (i.e., peanut butter, snack peanuts, candy and other). This translates into inventory issues that influence the trends. For example, if actual consumer consumption is constant but the retailers and manufacturers decide to reduce their inventory levels, the Peanut Stocks and Processing Reports would indicate a downward use of peanuts. The opposite could also occur. If inventory levels are below what retailers and manufacturers now desire, they would increase the inventory level which translates into increase peanut usage as reported by the Peanut Stocks and Processing Reports. Another point is that the data indicating peanuts going into peanut butter is not just peanut butter in the jars consumed in the U.S. The peanut butter category includes peanut butter used in crackers, bakery and peanut butter exports. Even with these points, the Peanut Stocks and Processing Reports do provide a sense of the trend in peanut usage.

To minimize the inventory effects, scanner data that captured the consumer's purchases of peanut products was needed. Thus, the NPB initially contracted with Information Resources Inc. (IRI) for their peanut data. This data is collected from food retailers utilizing the scanner technology. Thus, this data reflects actual purchases by consumers and provides a truer picture of peanut consumption in the U.S. Only peanut butter data was purchased initially. One can not purchase peanut scanner data since peanuts are an ingredient in many peanut food products like peanut butter, snack peanuts, peanut candy and inshell peanuts. Approximately 50% of the peanuts have historically gone into peanut butter with the rest split almost equally between snack peanuts and peanut candy. There is a significant amount of branded advertising for peanut butter, snack peanuts and peanut candy. However, only the branded advertising for peanut butter is obtainable. The other two categories (i.e., snack peanut and peanut candy) branded advertising is lumped into the general category of all snacks and all candy which can not be broken down. Thus, peanut butter was the initial focus. As the NPB programs developed, it was felt that even without the branded advertising data for snack peanuts that scanner data for snack peanuts was needed. However, in working with IRI, it was discovered that there was over 2,100 different UPC coded snack peanut items which included packaged inshell peanuts. In looking at the item descriptions of the UPC coded items, one could not separate out the packaged inshell peanut items. Thus, for the IRI data, snack peanuts include packaged inshell peanuts. When NPB contracted with IRI for the snack peanut data, IRI was only able to provide data back to the 1st quarter of 2000. However, when NPB initially contracted with IRI for the peanut butter data, IRI was able to go back to the 4th quarter of 1997 in providing that data. This was the data that was used primarily for the first evaluation of the NPB back in 2004. This data was used initially by the NPB during this second period. However, with the two peanut crises, NPB realized that this initial set of IRI data was not adequate. NPB discovered that WalMart was not being adequately captured. After further discussion with IRI, it was discovered that they also collect product purchase data from households using scanning technology that the household uses in scanning their purchases independent of where the purchases were made. This allows one to determine the retail outlet. The NPB purchased the IRI Household Scan data for peanut butter. This data series starts 1st quarter 2004. Recently, the NPB purchased the IRI Household Scan data for peanut snacks which includes inshell peanuts that have UPC codes. This data series starts 1st quarter 2005. Both of these series allow breaking the data down to the various outlets that consumers can purchase the product. The outlets are as follows: total outlets, grocery, mass merchandiser (i.e., Kmart, Big Lots, WalMart traditional stores and Target traditional stores), supercenter (i.e., WalMart Super stores and Super Targets).

Figures 8-11 reflect the trends in peanut consumption based on the USDA-NASS Peanut Stocks and Processing Reports from the 1st quarter of 1986 to the 3rd quarter of 2009. Total peanut use (Figure 8) since 2005 is significantly higher than from 1986-2004. Total peanut use seems basically flat since 2005 but that is due to some of the peanut products not doing as well which will be seen in the following charts. Given that the two salmonella crises occurred since 2005, keeping total peanut use stable is a testament to a strong program. In contrast, peanut butter use (Figure 9) has shown a strong upward increase since 2005. It is also significantly above the usage prior to 2002. Peanut candy usage (Figure 10) has been basically flat since 1986. However, this may be a little misleading given that some manufacturers utilize peanut imports in their products which will not be captured in this data. USDA reports only U.S. peanut usage. Finally, snack peanut usage (Figure 11) has had an oscillating trend since 1986. Prior to 1996, snack peanuts were on a downward trend. However, since 2006-2005, snack peanut usage increased significantly. Since 2005, there has been a downward trend again. A significant part of this decline may be due to the decrease in the number of manufacturers producing snack peanuts to the point the U.S. has only 1 major player in the market. The USDA data clearly indicates that the NPB total program was having an impact on peanut usage in the U.S.



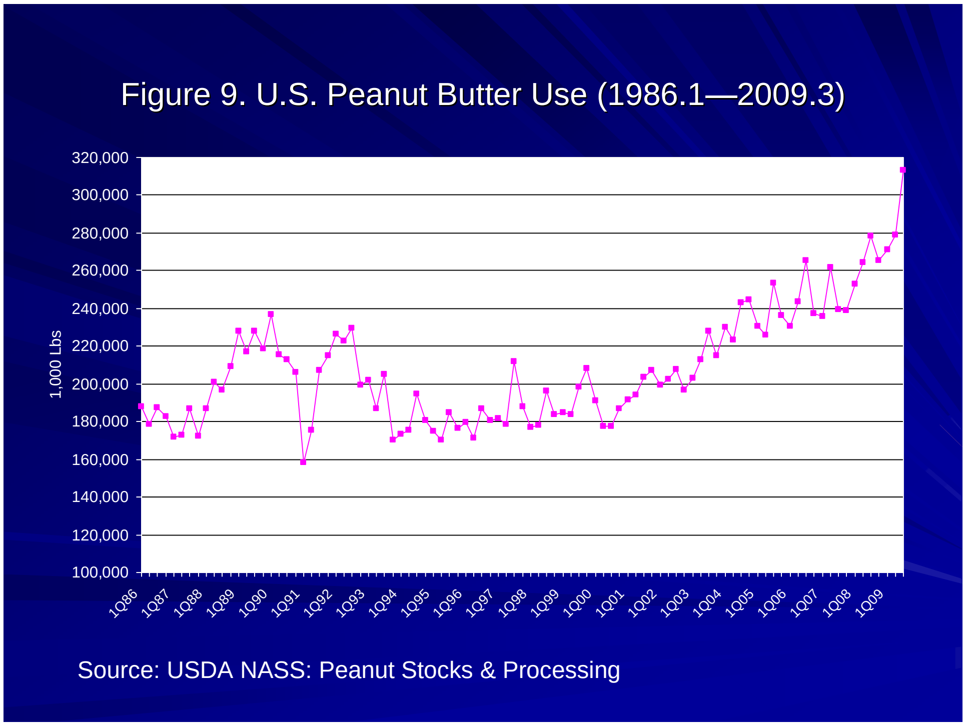


Figure 9. U.S. Peanut Butter Use (1986.1—2009.3)
1,000 Lbs
320,000
300,000
280,000
260,000
240,000
220,000
200,000
180,000
160,000
140,000
120,000
100,000
1Q86 1Q87 1Q88 1Q89 1Q90 1Q91 1Q92 1Q93 1Q94 1Q95 1Q96 1Q97 1Q98 1Q99 1Q00 1Q01 1Q02 1Q03 1Q04 1Q05 1Q06 1Q07 1Q08 1Q09
Source: USDA NASS: Peanut Stocks & Processing

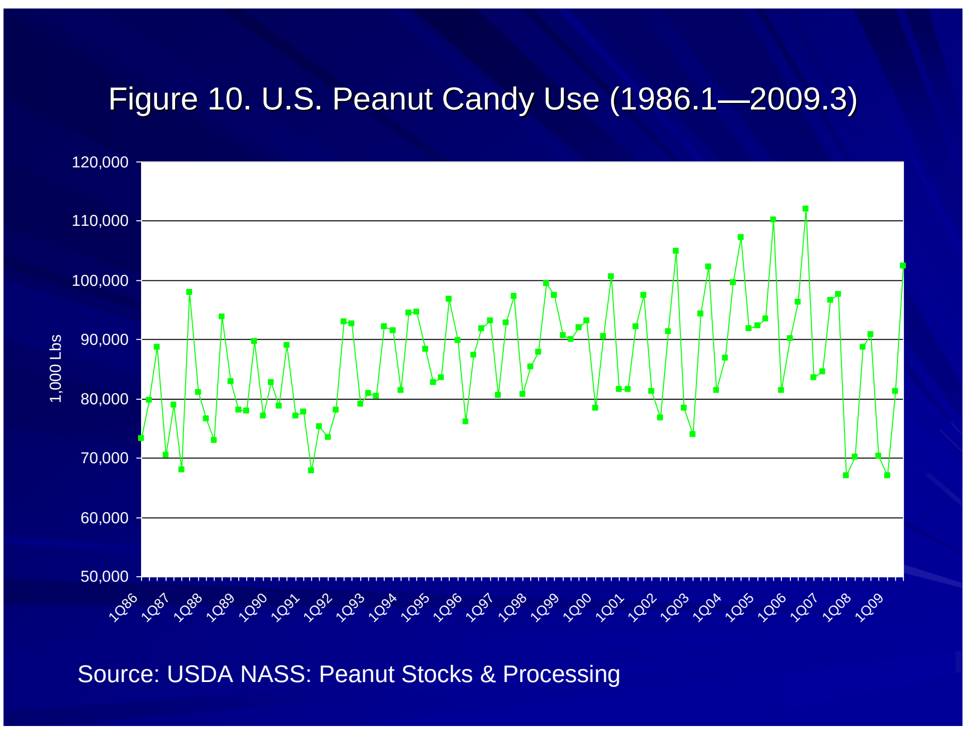
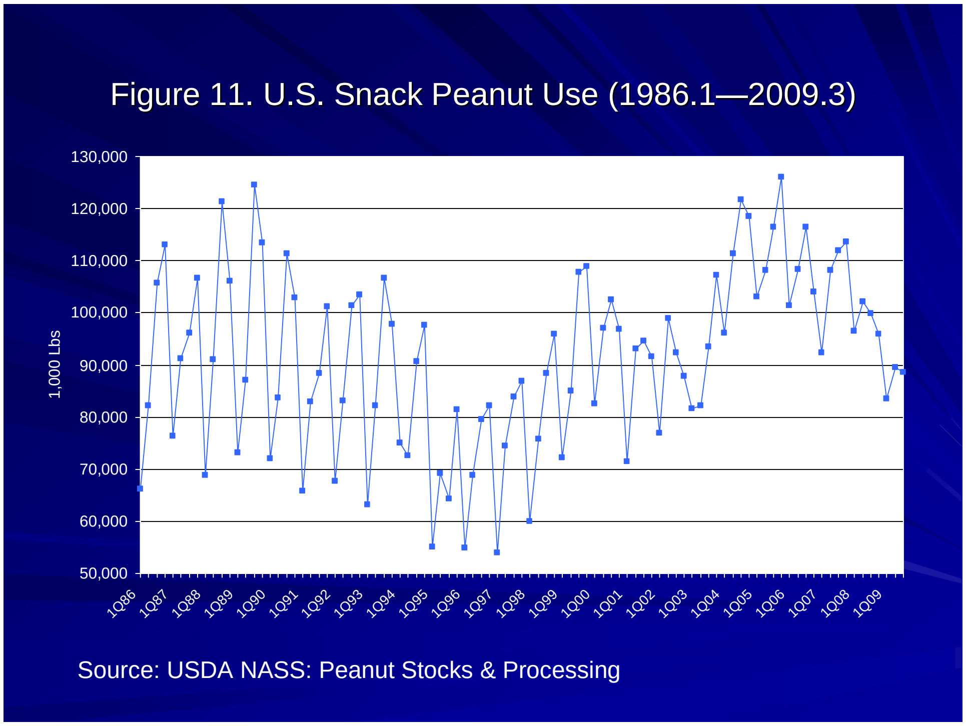


Figure 10. U.S. Peanut Candy Use (1986.1—2009.3)
1,000 Lbs
120,000
110,000
100,000
90,000
80,000
70,000
60,000
50,000
1Q86 1Q87 1Q88 1Q89 1Q90 1Q91 1Q92 1Q93 1Q94 1Q95 1Q96 1Q97 1Q98 1Q99 1Q00 1Q01 1Q02 1Q03 1Q04 1Q05 1Q06 1Q07 1Q08 1Q09
Source: USDA NASS: Peanut Stocks & Processing



Figures 12-15 reflect the trends for peanut butter and snack peanuts based on the IRI household scan data base. Figures 12 (peanut butter) and 14 (snack peanuts) compare the USDA data to the IRI data on the same chart for the time period the IRI data covers. The USDA peanut butter shows an upward trend with a significant increase in 2009. The IRI peanut butter data shows a basically flat trend. It shows the significant decrease in 2nd quarter 2007 and 1st quarter 2009 due to the salmonella crises. Yet, the following quarters showed significant increases. When the recalls initially occur, consumers will react. Then, the NPB programs that are in place dampen the impact and helps turn consumption around. In addition to the NPB programs, the various state peanut organizations, other peanut organizations and peanut manufacturers responded in their own ways to combat the crises.

The snack peanut figure (Figure 14) shows a different picture between the USDA and IRI data. While the USDA data shows a decline, the IRI household scan data shows basically a flat trend except for the 2009 time period which indicates an upward trend. The discrepancy between the two may be due to peanut imports being used in snack peanuts. Also, the IRI data includes inshell peanut consumption which the USDA data does not.

Figures 13 and 15 reflect the IRI households scan data by various outlets. The grocery segment is still the major source of peanut products. For peanut butter, supercenters are growing in importance. This data will help NPB in deciding which outlets will enable them to get the biggest bang for the peanut grower dollar.

When you examine the charts around the period of the salmonella crises, there was not a continual decline in peanut consumption. This would not have been possible without the programs in place by the NPB. This finding reconfirms that the NPB programs are having a positive impact on domestic peanut consumption.

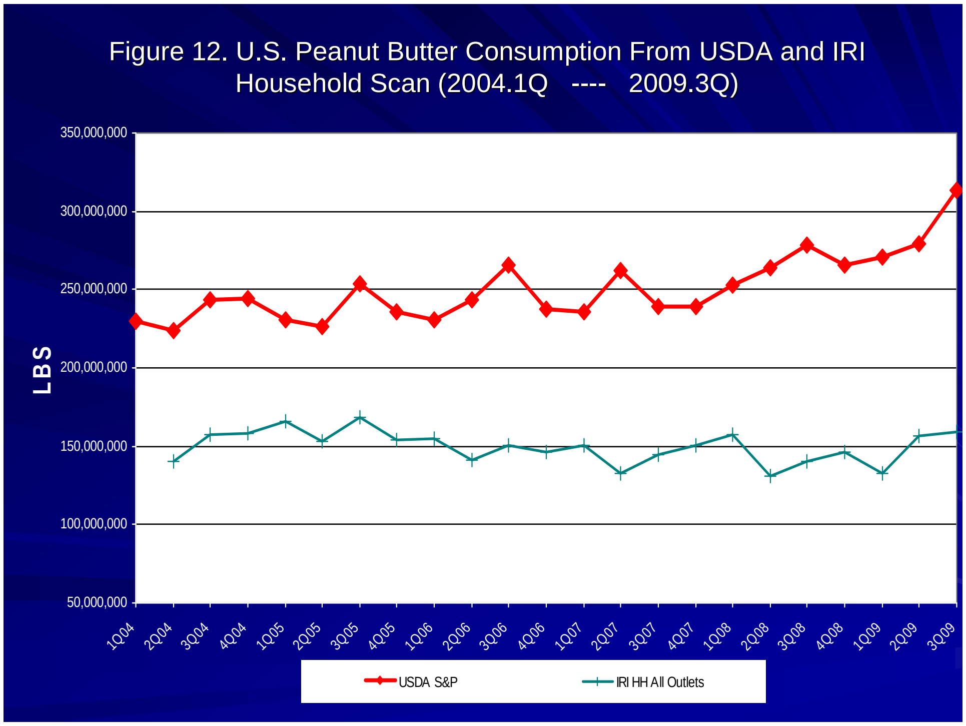


Figure 12. U.S. Peanut Butter Consumption From USDA and IRI Household Scan (2004.1Q ---- 2009.3Q)
LBS
350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
1Q04
2Q04
3Q04
4Q04
1Q05
2Q05
3Q05
4Q05
1Q06
2Q06
3Q06
4Q06
1Q07
2Q07
3Q07
4Q07
1Q08
2Q08
3Q08
4Q08
1Q09
2Q09
3Q09
USDA S&P
IRI HH All Outlets

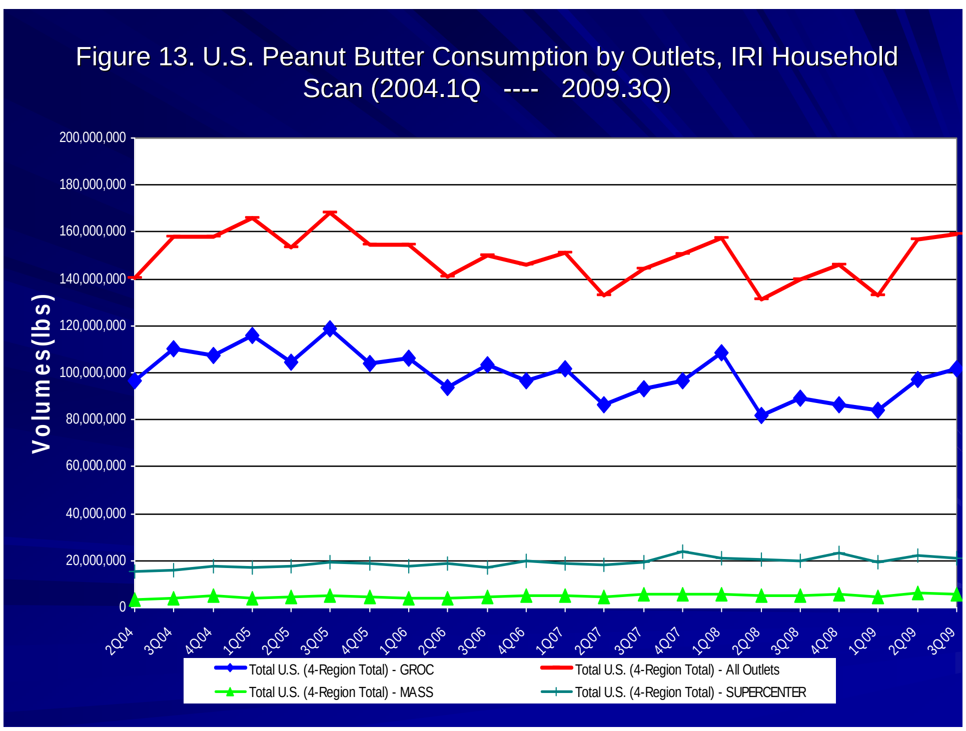


Figure 13. U.S. Peanut Butter Consumption by Outlets, IRI Household Scan (2004.1Q ---- 2009.3Q)
Volumes(lbs)
200,000,000
180,000,000
160,000,000
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
2Q04
3Q04
4Q04
1Q05
2Q05
3Q05
4Q05
1Q06
2Q06
3Q06
4Q06
1Q07
2Q07
3Q07
4Q07
1Q08
2Q08
3Q08
4Q08
1Q09
2Q09
3Q09
Total U.S. (4-Region Total) - GROC
Total U.S. (4-Region Total) - All Outlets
Total U.S. (4-Region Total) - MASS
Total U.S. (4-Region Total) - SUPERCENTER

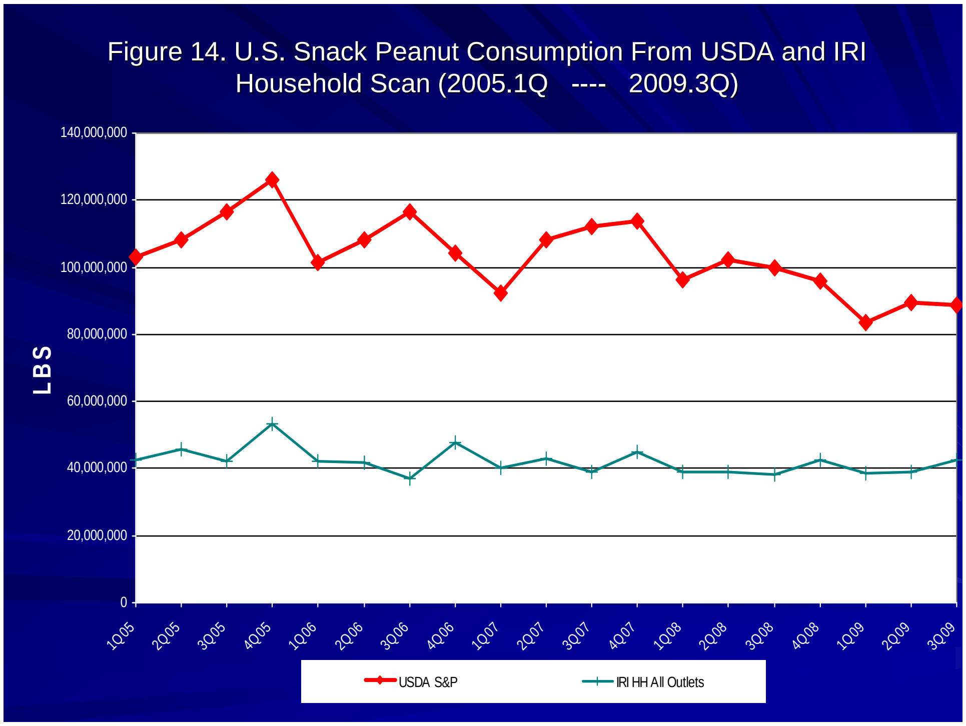


Figure 14. U.S. Snack Peanut Consumption From USDA and IRI Household Scan (2005.1Q ---- 2009.3Q)
LBS
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
1Q05
2Q05
3Q05
4Q05
1Q06
2Q06
3Q06
4Q06
1Q07
2Q07
3Q07
4Q07
1Q08
2Q08
3Q08
4Q08
1Q09
2Q09
3Q09
USDA S&P
IRI HH All Outlets

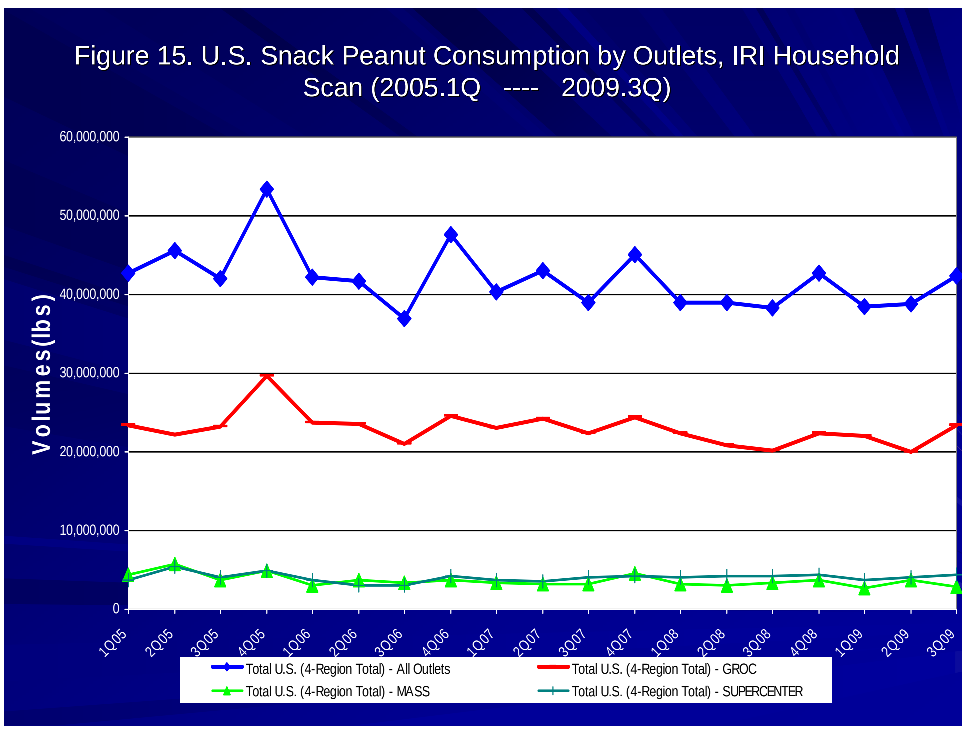


Figure 15. U.S. Snack Peanut Consumption by Outlets, IRI Household Scan (2005.1Q ---- 2009.3Q)
Volumes(lbs)
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
1Q05
2Q05
3Q05
4Q05
1Q06
2Q06
3Q06
4Q06
1Q07
2Q07
3Q07
4Q07
1Q08
2Q08
3Q08
4Q08
1Q09
2Q09
3Q09
Total U.S. (4-Region Total) - All Outlets
Total U.S. (4-Region Total) - GROC
Total U.S. (4-Region Total) - MASS
Total U.S. (4-Region Total) - SUPERCENTER

Econometric Analysis

This section addresses the area of generic and brand-specific advertising on demand for peanut butter in the U.S. Every year, peanut butter manufacturers spend millions of dollars on peanut butter brand advertising. The U.S. peanut butter industry, with sales exceeding 1.6 billion dollars, spent about 112.449 million dollars on branded peanut butter advertising from the 1st quarter 2005 through the 1st quarter 2009. In contrast for the same time period, the NPB spent approximately 22.197 million dollars on generic advertising and promotion (Figure 16). Most of the branded advertising was conducted on spot, network and cable television, and in some magazines, newspapers and internet. During this period, NPB's promotion/advertising expenditures were less than 20% of what peanut butter branded advertising expenditures.

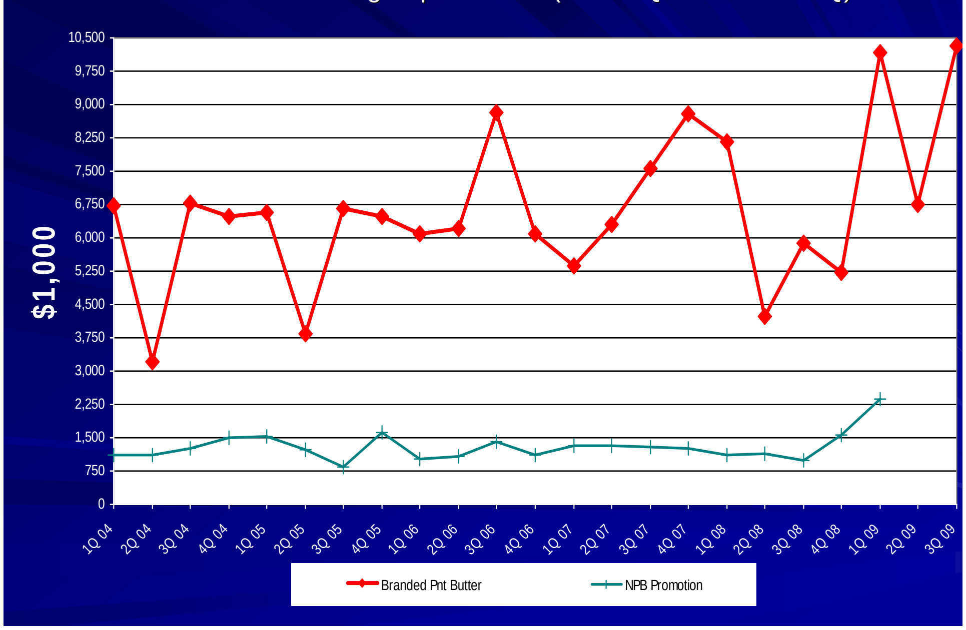


Figure 16. U.S. Branded Peanut Butter Advertising and NPB Promotion/Advertising Expenditures (2004.1Q ---- 2009.3Q)

There have been a number of studies on the effects of advertising on agricultural products. Most of these studies focused on generic agricultural commodity promotions. While such generic promotions may impact aggregate demand, the effect of brand advertising may not be as pronounced due to possible brand substitution. Because firms advertise their products to increase their market shares, an important issue is whether brand advertising impacts the aggregate demand for the product. If it does not, brand advertising efforts can be considered less efficient than generic advertising from the social point of view.

The dynamic effects of other events that, directly or indirectly, affect consumer demand. The U.S. peanut market has been repeatedly influenced by the domestic farm bill containing the peanut program and international trade liberalization. The changes in federal peanut support policies authorized by the Farm Bills of 1996, and particularly 2002, had a direct effect on the farm gate peanut prices. These price shocks have been transmitted to the peanut product manufacturers and, eventually, had an impact on consumer prices. Economic literature on demand analysis suggests that, just like advertising campaigns, exogenous price changes have lingering (dynamic) effects on demand. As has been mentioned several times, the peanut industry has faced two critical food safety recalls. These recalls have an immediate effect and the potential for a lingering (dynamic) effect on demand as has happened for other food products (e.g., tuna and spinach).

The peanut industry is a unique industry when you compare it to other agricultural commodity markets. First, peanuts are an ingredient to make the final product that consumers will purchase. Most, if not all, of the peanut products are branded with strong manufacturer presence in the market place. The National Peanut Board's promotion/advertising expenditures, on average, are less than 20% of the branded peanut butter advertising dollars. The NPB's expenditures have been fairly constant which does not allow variability in the regression. There is also branded advertising in the snack peanuts and candy sector which cannot be captured. There are several other peanut organizations that promote peanuts which that data cannot also be captured. These factors make standard econometric analysis impractical.

Conclusions

In 1999 U.S. peanut producers approved a referendum that created a U.S. peanut farmer-funded research and promotions commodity board. Under the order, all domestic peanut producers are assessed at the rate of 1 percent of the total value of all farmer stock peanuts. Thus, the National Peanut Board started operations in the spring of 2000. There mission statement is as follows:

> The National Peanut Board is a farmer-funded, farmer driven program representing all USA peanut farmers and their families. Through research, education and marketing initiatives, the Board works to improve efficiencies for peanut farmers and promote the great taste, nutrition and culinary versatility of USA-grown peanuts.

The focus of this report is an evaluation and report on the National Peanut Board's domestic peanut market program. With a limited budget, the NPB has created a broad based program to enhance the demand for USA grown peanuts. They took a very methodical approach in that they first learned what the current perceptions and attitudes were towards peanuts and peanut products. They constructed part of their program to address the perceptions and attitudes. Based on the analysis of The Bantam Group's study as discussed in this report, they have made significant inroads in enhancing the perceptions and attitudes towards peanuts and peanut products.

Even if one changes their perception and there is no increase in peanut consumption, the NPB had not met its mission. However, as clearly evident from the consumption trends section of this report, the NPB is achieving their mission, especially when one looks at the periods after the salmonella crises. Consumption trends for both peanut butter and snack peanuts have seen increases. This has been especially challenging given the two critical food safety recalls due to salmonella with the last recall being the largest food safety recall in U.S. history with over 3,400 products. Their programs have enabled the peanut industry to continue forward and not be devastated by the food safety recalls. The challenge will be to maintain those trends.

The foodservice industry has been a focused target for NPB marketing and promotion programs. Peanut menu listings have increased 22.3% between the January-June 2006 and the January-June 2009 menu periods. In contrast, almond listings have seen a net decline of -2.56%. Based on this analysis, the NPB foodservice program is making significant strides.

In conclusion, the U.S. peanut farmers should be very satisfied with the National Peanut Board. The NPB has taken extreme care of utilizing their checkoff dollars to maximize the benefits for the peanut producer. The domestic peanut markets have grown instead of stagnating and declining. This could have been a definite scenario with the 2007 and 2009 salmonella crises as well as the 50% increase in consumers' view of the seriousness of peanut allergies.