Current Market Development Activities/Policies
Assessing Market Development Activities for Agricultural Commodities

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Individual firms strive to achieve differentiation for their products. Powerful incentives exist for differentiation such as lower own-price and cross-price elasticity of demand. A common method of achieving product differentiation is creating brand names that embody a unique identity for the product and communicate to buyers special attributes composing this unique identity.

By contrast, producers of agricultural commodities have few avenues available to differentiate their products. These producers face infinitely elastic demand for their output, produce undifferentiated commodities sold by description, and cannot influence the price they receive by reducing output. This situation also minimizes the effectiveness of market development activities by individual firms producing undifferentiated commodities. This general situation, however, has encouraged the formation of specialized commodity organizations and spawned various government programs expressly to conduct, coordinate, and/or facilitate market development activities for bulk and semi-processed agricultural commodities and value-added food products.

Commonly, producer-based organizations collect check-off dollars from producers and use the funds for advertising, promotion or other types of generic market development activities. Naturally, producers are concerned about the effectiveness of the expenditures and the distribution of benefits—whether they accrue to producers, processors, retailers or other downstream firms.

Complex interactive and dynamic relationships emerge from these concerns. If market development activities are successful in inducing changes in demand and increasing farm gate price, producers inevitably respond through a larger supply. Unfortunately for producers in the aggregate, these influences are likely achieved in the longer-term at the expense of competing commodities that are substitutes. To assess the net effects across all of domestic agriculture, the cross-commodity effects of various generic market development activities must be understood.

Market development activities for individual firms focus on gaining or maintaining market share whereas the commodity organizations tend to concentrate on expanding the total market for the commodity (Ward and Chang). The effectiveness of the market development activities of commodity organizations and individual food processing firms partially depends on industry structure beyond the farm gate (Ward). Firms in imperfectly competitive markets possess some ability to control price and output. Ceteris paribus, this enhances the effectiveness of advertising and other market development activities.
The symposium and this overview paper are dedicated to evaluating current, and understanding the future relevancy of, market development activities. Market development is defined and compared for individual firms and commodity organizations. Industrialization and global market integration are examined for implications regarding public market development programs. The relationship of public market development policy with other major federal policies influencing agricultural marketing is highlighted. Subsequently, selected public market development programs are described briefly. In the concluding section, some economic and policy issues surrounding market development for agricultural commodities are identified.

Market Development Conceptualization

For the individual firm, market development has been defined as a set of activities aimed at obtaining sales and influencing the purchase decision of the firm’s customers, whether they are intermediaries or final consumers (Sporleder, 1973, p. 206). Growth in product total sales for the firm can be realized through increasing the product’s market share within an existing market area or by offering the product in new markets or geographic regions. This conceptualization is confirmed in separate analyses by Nichols and Ansoff. They indicate that the market development decisions of individual firms consist of some mix of product strategy, pricing strategy, distribution or market channel strategy, and promotion strategy.

Market development activities encompass both price and non-price competition. Price competition can be an important aspect of an individual firm’s efforts to gain market share (Sporleder, 1970). Firm-level, non-price competition activities normally employed include some mix of product differentiation through branding, product proliferation, market segmentation and advertising and promotion.

It is useful to compare market development for individual firms and commodity organizations. Clearly, market development for individual firms tends to focus on gaining or maintaining market share on an individual product basis. The typical commodity organization is inclined toward strategies aimed at expanding the total size of the commodity market.

For a commodity organization promoting an unprocessed or semi-processed agricultural commodity, market development may mean undertaking activities aimed at increasing per capita consumption in a particular geographic area. For instance, a commodity organization representing U.S. wheat producers, U.S. Wheat Associates, may engage in a program to educate Korean bakers about the characteristics of flour produced from certain U.S. wheat. This typifies an activity ultimately aimed at increasing per capita consumption, even though the immediate audience is bakers (Branson).

Differences between firms and commodity organizations are minimal when conceptualizing broad strategic alternatives available for market development. However, the scope of managerial control over a coordinated strategy regarding the marketing mix is considerably different. Commodity organizations responsible for generic market development activities do not take title to the product. Hence, these organizations have limited ability to harmonize other marketing mix factors such as price, quality and distribution channel strategy with promotion activities (Strak; Nichols et al.).
As a matter of policy, the U.S. federal government has engaged in various agricultural export programs for several decades. The programs have the intent of boosting U.S. agricultural exports and to develop and maintain foreign agricultural markets for U.S.-produced commodities. The programs are supported both by federal appropriations and by private funds. The private funds result mostly from a myriad of federal and state commodity check-off programs and some U.S. companies.

To better understand contemporary market development issues, the ensuing discussion highlights the implications of industrialization and liberalized trade. Next, a brief taxonomy of all federal policies is presented to discern relationships among seemingly disparate policies that influence agricultural marketing. Ultimately, a more detailed discussion of specific market development policies and contemporary issues surrounding market development is presented.

**Industrialization and the Dynamic Trade Environment**

**Structural Change**

Industrialization and structural change in U.S. agriculture over the next several decades is expected to be rapid and technologically-induced (Sporlede and Phillips; Barkema et al.; U.S. Congress, 1992). Some federal commodity marketing policies enable commodity organizations to engage in market development activities, both domestic and foreign. In addition, federal money is appropriated for certain market development activities. With industrialization of agriculture and a dynamic trade environment, the federal government role with regard to market development policies becomes an issue worthy of introspection. Public market development serves as the foundation for this overview manuscript and for the entire symposium.

Several analyses have focused on the industrialization of agriculture and no attempt is made here to summarize. However, the industrialization of agriculture has important implications for this symposium. The emerging importance of biotechnological innovations on food production and manufacturing in particular is widely recognized (Sporlede and Phillips). Biotechnological innovations result in intellectual property rights which become firm-specific intangible assets to the firm possessing the intellectual property rights. Understanding how biotechnological advances are commercialized and how firms decide on their boundaries relative to this emerging development is portentous for both firm managers and policymakers.

The rights to commercial biotechnology products and processes are intangible assets which may provide incentives markedly different from those accompanying the more traditional technological innovations of the past. Biotechnological innovation and its commercialization creates intellectual property. Contemporary intellectual property law includes patents, copyrights, trademarks, trade secrets and breeders’ rights (U.S. Congress, 1990, p. 4). Patents, trade secrets and plant variety protection laws are especially important to agricultural biotechnology firms. Commercialization of biotechnology also may result in trademarks.

In the United States, patents provide financial incentives to inventors by granting an exclusive right to the inventor for seventeen years. International agreements protect biological inventions and include the Paris Convention for the Protection of Industrial
Property; the Patent Cooperation Treaty; the Budapest Treaty; the International Union for the Protection of New Varieties of Plants (UPOV); and the European Patent Convention (EPC). There are nineteen member nations as part of UPOV and fourteen countries are part of EPC (U.S. Congress, 1988, p. 208). These agreements provide significant legal protection for inventions created through the use of biotechnology.

Industrialization implies a move away from a food production, processing and distribution complex based on undifferentiated mass marketed commodities at the farm gate (Barry, et al.). Trends toward tighter vertical coordination through contracting, joint ventures and strategic alliances within the food chain may accelerate (Sporleder, 1992). Biotechnology may tailor inputs to enhance quality and other desirable characteristics of the raw commodity. With such technologies, more consumer-oriented strategies will become essential as previously standardized commodities are transformed into customized products. The distribution system must change then to accommodate specialized value-added, identity-preserved products (Streeter, Sonka and Hudson). As markets become more tightly vertically coordinated and technology is capable of adding more value to the product, publicly funded market development activities for bulk commodities will be difficult to justify.

Market Integration and Liberalized Trade

Traditional patterns of marketing will become less important for many commodities, partly from industrialization and partly from market integration. In general, future market development activities for agricultural commodities will be implemented in a liberalized trade environment resulting in large geographic areas as integrated markets.

Agricultural trade has always been important to the United States. In 1993, U.S. agricultural exports amounted to $42.6 billion (Figure 1). The value of total agricultural exports was relatively stable during most of the 1950s and 1960s. Explosive growth occurred in the 1970s but peaked in 1980. The first half of the 1980s saw steady declines in exports. Substantial recovery has occurred since 1985.

The dynamic aspects of trade relationships are relevant too. U.S. participation in trade agreements, such as General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA), clearly provides a future trade environment unlike any in the past. In addition, the global trade environment continues to evolve. Preferential trade agreements are emerging continually. For example, Mercosur is a large, emerging preferential Latin American trade agreement comprising Argentina, Brazil, Paraguay and Uruguay. Its intent is to have unfettered movement of goods, services and factors of production among the member states.

The process of market integration is occurring quite rapidly. A free trade zone to be composed of the entire Western Hemisphere by 2005 is now a target of nearly all Western Hemisphere countries. The Western Hemisphere free trade zone would have a 1993 population of 722.5 million, a combined gross domestic product (GDP) of nearly $9.4 trillion (US$, 1993), and a GDP per capita of nearly $13,000 (US$, 1993). About 30 percent of total worldwide U.S. trade in goods during 1993-1994 was accounted for by food and beverage exports to the Western Hemisphere (U.S. Department of Commerce). Combined U.S. exports to this region in 1993 amounted to $174.5...
Figure 1. U.S. Agricultural Exports

Annual Value, 1956-1993, Real & Nominal

Value ($ Billions)

Year

1Real value calculated using Producer Price Index for intermediate food processing, 1982=100
billion. This could rise dramatically over the next several decades as market integration occurs and the free trade zone emerges. As with NAFTA, agriculture in particular could benefit from liberalized trade.

Federal Policies in Agricultural Marketing

All federal policies related to commodities and agricultural marketing may be categorized into three broad groups (Sporleder and Phillips):

- competition policies,
- group action policies, and
- demand expansion policies.

This taxonomy is useful for defining the foundations for agricultural marketing policy. The first two categories are mentioned only briefly so the focus remains on the set of policies under the demand expansion category. The primary discussion examines demand expansion policies in general and market development activities in particular in the context of these other programs that influence commodities, agricultural markets and agricultural marketing.

Competition Policies

The largest of the three federal agricultural marketing policy categories, competition policies, intends to promote competition by influencing the balance of economic power at the producer-first handler level through antitrust policies, trade practice regulation, and public price reporting and market information.

Antitrust policies of interest at the producer-first handler level include the Sherman Antitrust Act and the Capper-Volstead Act. These acts are the cornerstone of antitrust policy regarding producer-first handler economic power (U.S. Department of Agriculture, 1976). Legislation on trade practices and public market information partially aims at balancing economic power at the producer-first handler level (Knutson, et al.). Both recognize oligopsonistic or spatially-monopsonistic structures at the producer-first handler level. Regulations exist to encourage information collection, promoting competition in the long run. In general, public price reporting is justified on grounds of promoting competition, efficiency and equity in addition to assisting the federal government with information for monitoring and regulatory purposes (Henderson et al., p. 22).

Group Action Policies

Another broad federal policy category includes enabling legislation to permit producers, under certain conditions, to establish marketing orders. Marketing orders allow producers to alleviate the free rider problem (Armbruster and Jesse). Capper-Volstead, even though an antitrust policy per se, effectively encourages producers to form cooperative associations expressly for joint marketing. Agricultural cooperatives under producer control are still a viable income enhancing tactic (Centner). Marketing agencies-in-common are enabled under this same broad category of legislation. Group action policies are considered distinct but certainly interact with some competition policies. For example, certain marketing orders can provide a vehicle for collecting producer money to conduct generic market promotion programs.

Demand Expansion Policies

There are a number of interrelated federal policies that influence the demand for agricultural commodities and food products
(Table 1). This discussion classifies these demand-related policies according to their primary intent and their primary market, i.e., domestic vs. foreign. Each of these broad policies and their derivative programs may be analyzed using these categories. The taxonomy provides an overview framework for the symposium.

### Concessional and Humanitarian Programs

Some programs reflect policy with a humanitarian intent, but also have a secondary objective of either foreign or domestic demand expansion for agricultural commodities. Primary domestic programs include various food donation and dispersal programs, such as the Women, Infants, and Children (WIC) Program, school lunch program, and food dispersal through commissaries. Only the foreign demand expansion programs are highlighted here.

The federal government has several concessional export programs for agricultural commodities operated primarily for humanitarian purposes. Perhaps the best known and most significant of these is Public Law 480 (PL 480), the U.S. international food assistance program established in 1954 by the Agricultural Trade Development and Assistance Act. It provides food and agricultural commodities to certain countries with the intent of meeting emergency situations, supplying the nutritional needs of short-run economic development of recipient countries. Through Title 1 of PL 480, U.S. agricultural commodities are sold to developing countries on long-term credit supplied at below-market interest rates.

<table>
<thead>
<tr>
<th>Primary Intent</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humanitarian and/or Concessional</td>
<td>Food Stamps, WIC</td>
<td>PL 480</td>
</tr>
<tr>
<td>Commercial</td>
<td>Check-off Programs</td>
<td>FMD Program, MPP, EEP</td>
</tr>
</tbody>
</table>

The original intent of PL 480 was to export substantial amounts of U.S. surplus agricultural commodities and simultaneously promote U.S. international policy objectives. The Food, Agricultural, Conservation, and Trade Act of 1990 substantially changed PL 480. For the first time since 1954, the procedures and management for Title I became the responsibility of the secretary of agriculture. Prior to this, the objectives for PL 480 required consensus among several agencies—the U.S. Department of Agriculture, the U.S. State Department, U.S. Department of the Treasury, AID and the Office of Management and Budget.

Agricultural exports under concessional programs totaled about $1.5 billion in 1989 (U.S. Department of Agriculture, 1994). This compares to total commercial exports that same year of about $38.4 billion. Exports under the PL 480 program generally have declined since 1985 (Figure 2).

### Commercial Programs

Commercial programs are focused chiefly on selling more U.S. bulk and semi-processed commodities and value-added products in world markets. These programs
Figure 2. PL480 & Humanitarian Programs

Total U.S. Exports, 1972 to 1989

$ Billions

Year

stem from federal policies primarily intended to gain global share for U.S.-produced commodities and food products. The USDA administers foreign demand expansion programs through the Foreign Agricultural Service (FAS). These programs are the Foreign Market Development Program (FMD) and the Market Promotion Program (MPP)\(^1\) (Table 1).

Additional federal and state policy under this general heading includes various legislation enabling operation of producer self-help demand expansion programs through commodity check-offs. The programs are referred to as “coordinated” programs and the enabling legislation is classified into three types: federal marketing orders, “free-standing” national programs, and state commodity programs (Spatz). Check-off monies may be used for research and advertising. Such expenditures normally are oriented to demand expansion for a particular commodity. A closer examination of the major commercial federal market development programs for agricultural commodities follows.

**Market Development Programs**

**Scope and Functions**

One federal government program focusing on encouraging private commercial exports of commodities is the Export Enhancement Program (EEP). The goal of EEP is to gain market share in foreign markets through lower selling prices. EEP reimburses exporters who sell U.S. commodities in selected foreign markets at below the world market price. Exporters become eligible for the program if it has been determined that they are victims of unfair trading practices in the countries where they attempt to do business. USDA covers exporters’ losses by giving them certificates, now redeemable in cash, which originally could be traded for government-owned surplus commodities. The certificates equal in value the amount of the discount.

The pivotal federal market development program for agricultural commodities is the MPP. The focus of MPP is to assist in defraying the cost of overseas promotional activities for U.S. agricultural products. USDA authorized more than $1.25 billion annually for MPP from 1986 through 1993; however, congressional appropriations were substantially less—about $148 million for 1993. Approximately 80 percent of the funds are used to promote high-value agricultural products, which comprise an increasing portion of world agricultural trade. In terms of global agricultural exports, high-value products have climbed from 66 percent of the total in 1962 to around 75 percent in 1990 (USDA, 19\_).

Annual MPP federal government expenditures, in nominal terms, rose steadily since its inception through 1991 (Figure 3). Expenditures in nominal terms for 1993 were slightly more than $144 million, after a decline since 1991. Real expenditures have increased steadily since 1986, with a notable spike in 1991. Recipients of these funds range from small start-up firms to large multinational corporations as well as not-for-profit commodity organizations (Table 2).

In addition to promotion, other MPP activities include technical assistance and trade servicing (Williams). Technical assistance is the provision of technical food science or engineering help to current or potential users of the commodity. Example activities include assistance with product formulation or technology adoption. Trade servicing is assistance to potential customers with the logistical aspects of promotion,
Figure 3. Market Promotion Program


Expenditures ($ Million)

Year

86 87 88 89 90 91 92 93

Nominal
Real

1Real value calculated using Consumer Price Index, 1982-1994=100
Table 2. Funds Received by Selected Market Promotion Program Participants, Fiscal Years 1986-1992

<table>
<thead>
<tr>
<th>Participants</th>
<th>Federal Funds Received ($ thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton Council International</td>
<td>77,327</td>
</tr>
<tr>
<td>U.S. Meat Export Federation</td>
<td>67,122</td>
</tr>
<tr>
<td>California Raisin Advisory Board</td>
<td>64,268</td>
</tr>
<tr>
<td>American Soybean Association</td>
<td>57,566</td>
</tr>
<tr>
<td>Wine Institute</td>
<td>55,684</td>
</tr>
<tr>
<td>Sunkist Growers, Inc.</td>
<td>53,130</td>
</tr>
<tr>
<td>California Walnut Commission</td>
<td>51,767</td>
</tr>
<tr>
<td>Florida Department of Citrus</td>
<td>51,240</td>
</tr>
<tr>
<td>California Prune Board</td>
<td>40,162</td>
</tr>
<tr>
<td>USA Poultry and Egg Export Council, Inc.</td>
<td>36,771</td>
</tr>
<tr>
<td>USA Rice Council</td>
<td>35,375</td>
</tr>
<tr>
<td>Alaska Seafood Marketing Institute</td>
<td>30,914</td>
</tr>
<tr>
<td>National Forest Products Association</td>
<td>30,330</td>
</tr>
<tr>
<td>California Cling Peach Advisory Board</td>
<td>27,955</td>
</tr>
<tr>
<td>National Potato Promotion Board</td>
<td>25,907</td>
</tr>
</tbody>
</table>


such as trade press announcements and distribution of promotional material to potential buyers.

The FMD, or “cooperator,” program has operated since the mid-1950s and is a similar market development program to the MPP. The cooperator program conducts similar activities to the MPP—trade servicing, technical assistance and promotion. In some instances, the programs have the same participants. Annual FMD expenditures in nominal terms rose steadily from 1956 through 1986 (Figure 4). After a three-year decline beginning in 1987, expenditures recovered to current 1993 levels slightly in excess of $33 million. In real terms, expenditures have been nearly steady since 1974, except for a spike in 1986.

Evaluation Issues

In general, the effectiveness of generic promotion is difficult to measure (Thraen and Hahn). In particular, the efficacy of market development programs in boosting U.S. exports is not easy to judge. However, there have been some evaluations of the public programs from the standpoint of managerial effectiveness and from the standpoint of measuring the impact on exports. The General Accounting Office (GAO) has done a series of reports over time that generally indicate that the management of both programs, but especially the MPP, could be improved. In 1992 Senate testimony, GAO recommended that MPP and FMD be combined under one management structure.
Figure 4. Foreign Market Development
Federal Government Expenditures, 1956-1993

Expenditures (\$ Million)

Year

1Real value calculated using Consumer Price Index, 1982-84=100
within FAS (U.S. Congress, 1993). In this same report, the GAO also recommended that fiscal monitoring be enhanced to detect potential fraud.

The administration of these programs has been criticized. One thread of criticism observes that, because some public money is provided to foreign companies, the programs result in subsidies to foreign food firms. Another criticism relative to program administration asserts that tax dollars should not be used to support multinational corporations selling their own branded products.

The effectiveness of generic market development efforts in boosting U.S. exports also is difficult to evaluate. Considering the size of these programs, not much has been spent on evaluation of the effectiveness of the various promotions. In what has been done, the results tend to be quite positive toward the effectiveness of promotion. For instance, a careful econometric analysis reported by Solomon and Kinnucan of cotton promotion in selected Pacific Rim Countries indicated a marginal return to promotion ranging from $11 to $171, depending on the country (p. 111). In a forthcoming analysis by Michael Dwyer, each federal dollar spent on MPP promotions during the 1986-1992 period boosted U.S. exports by $16, considerably higher than previous estimates by FAS program evaluators.

Clearly, these and related issues need to be addressed in detail during the course of this symposium.

Issues for This Symposium

Pondering the questions surrounding market development leads to the enumeration of several contemporary issues. The major areas and some of their content are suggested here.

- Public investment in market development. The simplest of all issues is whether or not public investment in market development should continue and, if so, at what level. Perhaps the United States should have a comprehensive economy-wide industrial policy. In this instance, agricultural market development programs would be integrated into the larger general industrial policy.

- Industrialization of agriculture and market integration. The implications of industrialization are many, including: tighter vertical coordination, more sophisticated products, and custom-designed output. More branded, patented, and differentiated products and processes are likely to emerge. Market integration implies that specialized export policies for any commodity, regardless of its origin, will become increasingly difficult to justify and to manage. This implies that the information required for monitoring the efficacy of federal programs becomes less intelligible as market integration is realized.

- Efficacy of public market development efforts. Estimates of the return per dollar spent on current public market development are encouraging. Even if current efforts are maintained or enhanced, they must be reshaped to reflect fresh realities regarding the future environment. The efficacy of program management and effectiveness of all public market development programs in increasing U.S. exports must be carefully measured. Ideally, these measurements
would include the distribution of the benefits from such programs.

Summary and Concluding Implications

Substantive issues are on the docket of this symposium. The deliberations promise to clarify existing market development efforts for agricultural commodities and prognosticate regarding future deployment of such programs. This paper has surveyed, in a cursory fashion, some of the complex political and economic relationships for current efforts. A lofty challenge lies in dwelling on each of the issues raised and forging some prescriptive policies to guide future public investment in agricultural market development programs.

NOTES

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1. MPP is used throughout this manuscript to refer to the Market Promotion Program and its predecessor, the Targeted Export Assistance (TEA) program. Except for the names and the time periods covered by the programs, they are practically identical. One additional distinction is that MPP gives priority to commodities adversely affected by “unfair” foreign trade practices while TEA did not (U.S. Congress, 1993).

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of Generic Promotion Programs for Agricultural Exports, ed. J.P. Nichols, H.W. Kinnucan, and K.Z. Ackerman, pp. 23-30. College Station, TX: Texas A&M University.


