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Promotion in the Marketing Mix: What Works, Where and Why

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The Committee on Commodity Promotion (NEC-63)

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CLOSING ADDRESS

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Counting the organizational year, NEC-63 has been involved in the business of evaluating the economic impact of commodity promotion programs for over 10 years. During that time we have developed or improved on the theory of generic advertising, developed new methodology and conducted empirical analysis of several generic commodity promotion programs. We have accomplished a lot, but in many ways we are just getting started. In the past our research focus has been on media advertising programs. We have held conferences on export promotion; but in reality only a modest amount of research has been conducted.

Until this conference, we have paid very little attention to forms of promotion other than media advertising. At this conference the focus has been on promotion as distinct from media advertising. And it has been an excellent conference.

There are many reasons why we need to pay more attention to promotion activities other than media advertising. Ellen Goddard in her opening points out several reasons. The trend toward more emphasis on promotion and less emphasis on media advertising has been going on unabated for several years now. In the 1950's, in North American, about equal amounts were invested in the two functions. By 1985 the typical manufactures budget was 65% for all types of sales promotion and 35% for advertising. By 1991 the proportions were 75% for sales promotion and 25% for advertising. So non media promotion is becoming a much larger part of the marketing mix in general. And there are indications that commodity promotion organizations are likely to also move in this direction.

Commodity promotion organizations with small budgets are also likely to invest, wisely so, more of their funds in promotion rather than media advertising. Most promotion programs imply a mix of media advertising and promotion activities. One form complements the other. The important question has to do with how much money or what proportion of the budget should be invested in the various advertising and promotion options.

John Yokom in the opening presentation said "How Do We Pick the Winners?" He has presented, more eloquently than many of us could have, the argument for economic evaluation of all forms of commodity advertising and promotion. I would say in a broader context, how do we pick the combination of activities that will provide the greatest economic benefit to those who are paying the bill. How do we allocate funds for the greatest possible gain. What kind of information do we need to make those decisions?

We have had a series of excellent papers. But I did not get the feeling that we have yet developed the methods nor done the empirical work to provide very good answers for

commodity promotion. For example how do we apply the brand promotion research concepts to commodity promotion evaluation.

Yokom gave us some excellent advice. I quote - "Management always picks the wrong promotion" "If you can't measure it you can't manage it". He demonstrated effectively the need for objective measures and effective evaluation. But he did not present a theory of how promotion influences consumer behavior nor did he develop in any depth the data needs nor the methods of analysis. Some of the later papers touched on the latter. But we still have a long way to go before we have theory, methodology or empirical results for promotion to match the progress that we have made on the economic evaluation of advertising. But we need to start.

Therefore I challenge the NEC 63 group and all other interested parties to think about and develop a good theory of commodity promotion - how do we expect consumers to behave with respect to various kinds of commodity promotion activities as opposed to brand and why? What methods can be used to test these theories. And concurrently, I suggest that some of us just go ahead and attempt to measure the relationships - perhaps some theories will spin out from the empirical work.

Ron Larson and his study of coupons, Jong Lee and his study of in-store-promotion, John Green on marketing strategies for oregon potatoes and Julie Iskow on maple syrup promotion provided us excellent examples of some empirical work. But, we need more empirical work. If we are to really understand the relationship between promotion and the economics of consumer behavior (as distinct from the results of research that focuses on consumer response without taking into account price affects) we need more studies that focus on the economic implications and we need replications. The completion of more studies and replications will provide us a larger stock of evidence from which we can evolve theory and/or perhaps confirm or reject various theoretical concepts. As more studies are completed and repeated a pattern of the economics of consumer response will likely evolve. It is even possible that some new theories can evolve from the empirical work.

Julian Alston in the final paper raised some very important and interesting policy issues. But a dynamic dimension and actual measurements of advertising elasticities need to be incorporated to test the conclusions that he drew from his theoretical modeling.

In closing, I want to discuss a few specific points.

1. Data needs. It is clear that one must have good high quality data to obtain high quality research results. This requires strong cooperation between the analysts and the promotion organizations that have the data and need the research results. Yokom suggested that the lack of data is usually one of the reasons given for not doing the analysis. There is an old saying. Never let a problem become an excuse. Likewise do not let the lack of data be the excuse for not getting on with studies; go collect the necessary data. This will always require a close working relationship between the research analysts and the practitioners. In fact we need a partnership between academics, government and the commodity promotion industry in order to realize high quality and useful results.

2. Producers, congress and courts will increasingly ask for evidence that the commodity promotion programs are effective; that is, are the programs providing economic benefits to all those who are contributing to the program effort. This behooves

all of us to work harder at developing ways to collect the necessary data and conduct the appropriate research.

3. In evaluating commodity promotion programs we need to consider the impact on both volume and price. Theoretically, and supported by research, commodity advertising and promotion can have positive effects on both volume of sales and on price. Most programs focus on volume of sales. And thus many of the promotion organizations' evaluation efforts look at the impact of the promotion program on volume of sales. For a brand this makes sense. For a commodity group, this is a wrong measure of success. One must consider volume in any evaluation - but for a commodity the more important benefit might be the associated price enhancement relative to what the price would have been without the promotion effort. The rationale for this is that the market supplies of a commodity are usually limited by the years crop or the size of the number of livestock. Thus any advertising or promotion induced increase in demand will be reflected in the price that producers receive for the commodity.

As a result of the work of NEC-63, the U.S. congress has appropriated funds to expand research in this area. To coordinate this work an Institute for Commodity Promotion Research and Evaluation will be established at Cornell University. Other universities will be involved either with direct financial support or in unfunded collaborative research. In addition we hope to have input from the commodity promotion industry concerning the most useful direction of that research effort. We hope to make the Institute a source of objective information for the commodity promotion industry - a place where you might get data, information about the latest research done on a particular commodity or policy issue, information about who is the best expert on a particular topic, etc. We hope to make this a partnership between academics, government and the commodity promotion industry with one purpose in mind - create a better understanding of the economics of publicly authorized checkoff programs.

The Institute will not replace NEC-63 - rather the Institute will become a sponsor, and help support, along with others, the activities and events of NEC-63.

The papers in this proceeding provide useful additional information to the literature in this field of study. We hope the conference and the written papers will continue to enhance the quality of research and encourage others to become involved in looking in more depth at the economic issues of commodity promotion