ECONOMIC ANALYSIS OF MEAT PROMOTION

PROCEEDINGS FROM THE NEC-63 CONFERENCE

Adam's Mark Hotel
Denver, Colorado

June 2 - 3, 1995

EDITED BY:

Henry W. Kinnucan
John E. Lenz
Cynda R. Clary

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The Research Committee on Commodity Promotion (NEC-63)

The National Institute for Commodity Promotion
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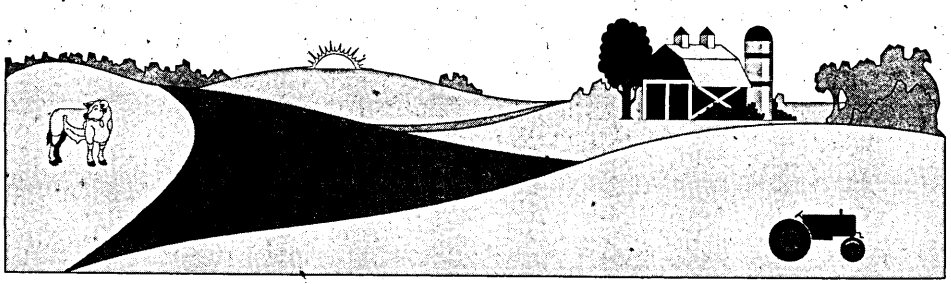

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Preface

Advertising and promotion of agricultural commodities by farm groups has long been controversial. A fundamental reason for the controversy is that economic theory is less than successful in explaining or predicting the social welfare implications of advertising. Perhaps less important, but no less real, is the fact that economists and other intellectuals tend not to like advertising, particularly advertising that is perceived as non-informative or "merely" persuasive. This dislike translates into skepticism, whether justified or not, of studies that purport to show economic benefits from advertising.

Although recent advances in advertising theory, mostly coming from the Chicago and Austrian schools of economic thought, have improved advertising's image in the profession, intellectual tastes, like tastes in general, are slow to change. Moreover, *farm-funded* (cooperative) advertising raises a host of concerns unique unto itself, not the least of which is the issue of uncontrolled supply response in competitive markets.

Unlike an individual firm that advertises, when a competitive industry advertises collectively, it generally has no control over either price or quantity. In particular, producers are free to respond to advertising-induced increases in price by expanding output. And they will do so, so long as price is above marginal costs. As the added output induced by advertising comes on the market, a downward pressure is exerted on price. If this downward pressure is such that price falls to its original equilibrium level, any producer benefits associated with the original increase in advertising will necessarily be short-lived. Therein lies the "supply-response problem" associated with cooperative advertising endeavors in competitive industries.

The purpose of this volume is to shed light on some of the more thorny issues surrounding commodity promotion programs, of which uncontrolled supply response is but one. Meat markets are selected for special study in part because meat promotion represents a substantial investment of resources, but also because some very good research has been done on the economic impacts.

In particular, studies by Ellen Goddard and her colleagues at Guelph, Nick Piggott and his colleagues at Davis and Armidale, and Ron Ward at Florida provide state-of-the-art analyses while at the same time illuminating issues of practical importance to industry and policy makers. These studies, augmented with case studies and commentary by other researchers and observations by industry participants, provide insights into the workings of commodity promotion programs that should be of value to practitioners and researchers alike.

In Part I, Bruce Berven and Mike Simpson provide a window to the dynamic setting of commodity promotion by discussing the strategic planning processes and institutional changes/pressures that are taking place in the U.S. beef and pork promotion organizations.

Part II presents case studies of meat promotion effectiveness in three countries that have invested heavily in cooperative advertising ventures, namely Canada, Australia and the United States. Among the more innovative aspects of the studies is the special attention paid to supply response, market power, and the spillover effects of advertising into related markets.

Part III zeroes in on the praxis of commodity promotion. Mike Sundet of the National Livestock and Meat Board discusses specific strategies used by the Board to extend the market for U.S. beef. Des O'Rourke identifies long-standing goal conflicts in the university and food marketing systems that must be surmounted if progress is to be made in developing and strengthening markets for agricultural commodities at home and abroad.

In the final section (Part IV) Harry Kaiser summarizes a wide-ranging roundtable discussion of the opportunities and challenges facing industry and researchers in the commodity promotion realm. Olan Forker in his concluding comments reflects on the factors that have accounted for NEC-63's success over the years and the issues that are likely to shape the debate in the years to come.

This volume would not have been possible without the support and assistance of a number of "unsung heros." Walt Armbruster of the Farm Foundation helped to organize the program. Jackie Boubin of the U.S. Meat Export Federation assisted with identifying industry speakers and in making local arrangements. Daniel Rossi, NEC-63's administrative advisor, handled the behind-the-scenes paperwork and other essential details that permit organizations like NEC-63 to function. Last, but not least, my secretary at Auburn, Carol Lee, handled the word-processing challenges with her usual competence and good cheer. To all, we are grateful.

PART ONE

INSTITUTIONAL SETTING AND ISSUES