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ECONOMIC ANALYSIS OF MEAT PROMOTION

PROCEEDINGS FROM THE NEC-63 CONFERENCE

Adam's Mark Hotel
Denver, Colorado

June 2 - 3, 1995

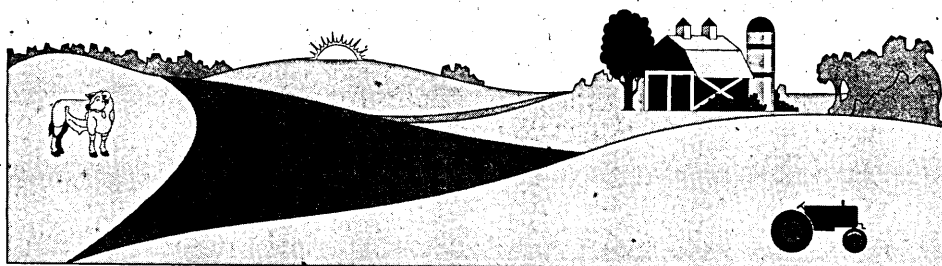
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DISCUSSION SUMMARY

Carlos Reberte

The first speaker in this session was Mike Sundet, Market Research Coordinator with the National Livestock and Meat Board (NLMB). Sundet's presentation focused on the current efforts of the NLMB to increase the effectiveness of its promotion activities through market segmentation. The objective of this strategy is to identify and target those meat/beef consumers who may be more responsive to the board's marketing efforts.

After his presentation, Sundet was questioned about the diary data the NLMB used in the meat market segmentation study. Sundet repeated that the households in the diary panel report the exact weight and cuts of fresh meat they buy and the prices they pay during the survey month. He also noted that the households do not report meat consumption away from home. Ron Ward added that the data set does not contain information on beef advertising exposure.

A participant then asked Sundet why the NLMB had decided not to target the light meat users. Sundet answered that the light users have poor "beef attitudes" and that it would be very expensive to influence their meat consumption decisions. The next questioner asked Sundet about the NLMB's strategy to target the heavy/moderate users. Sundet said the board planned to use the differences in demographic profiles across the various groups as a basis to identify the best media mix to reach each type of consumer. He added, however, that consumers would be targeted mainly through direct-to-consumer communications.

The final question concerned the cost of the market segmentation study. Sundet responded that although the cost of the study was quite high, it represented only a small fraction of total checkoff funds. A follow-up discussion among a group of conference participants concluded that the NLMB spends no more than 1 to 2% of the checkoff dollars on market research and promotion activities.

At the close of the discussion, Sundet said that the board would like to receive suggestions on how to better utilize the meat purchase diary data set.

The second speaker in this session was Desmond O'Rourke, Director of the IMPACT Center at Washington State University. O'Rourke first talked about the IMPACT Center's general approach to promoting agricultural exports. He then went on to describe the Center's efforts to promote exports of U.S.- produced Wagyu beef to Japan.

Following O'Rourke's presentation, the discussion centered on the market for American Wagyu beef in Japan. O'Rourke was asked about price differentials between American and Japanese produced Wagyu beef. O'Rourke responded that when the origin is unknown there is no price difference, but if the origin is known, American Wagyu tends to receive a discount of one-half grade to one grade. He added that in blind tests, consumers generally found no differences in taste between the two products. O'Rourke noted that there are Japanese-owned companies in the United States that export American Wagyu beef to Japan. As an example, he mentioned that a Japanese company owns the second largest beef export company in the state of Washington. He also mentioned Japanese restaurants and retail stores in the U.S. as outlets for American Wagyu beef.

The last speaker in this session was James Geller, the Regional Director for the Asia Market at H. Shenson International, a trading company that markets U.S. meat in the Far East. After reviewing the history of H. Shenson International, Geller gave an overview of the present marketing activities of the firm in the Asian market. Geller noted that Shenson receives Market Promotion Program (MPP) funds through the U.S. Meat Export Federation and that the firm uses these funds to promote both U.S. beef and Shenson products in every country in the Pacific Rim. In particular, Shenson allocates most of its MPP funds to the production of foreign language brochures. In Geller's view, this type of promotional effort is key to promoting U.S. beef in countries where English is not the first language or where beef is not part of the regular cuisine.

Geller mentioned the case of the Chinese market where, due to the lack of familiarity with beef, it is necessary to educate the consumer on basic matters such as how to use beef. Geller concluded by stating that market promotion programs are definitely worth their investment based on the returns and benefits to American companies and their employees.

After Geller's presentation, the discussion focused on the importance of MPP funds, institutional barriers to trade, and the role of government agencies in promoting trade. The first question asked was about the relative significance of MPP funds for Shenson's marketing activities.

Geller reiterated that Shenson spends MPP funds mainly on promotional brochures in foreign languages, which are very expensive to produce. He stressed that this type of literature is absolutely invaluable as a promotional tool and that the loss of the MPP funds would diminish Shenson's ability to market U.S. products. Geller added that MPP provides 30 to 40 percent of Shenson's promotion budget.

The next questioner asked Geller to identify the most commonly encountered trade barriers. Geller answered that one of the biggest trade barrier was the European Union's rejection of U.S. meat because of hormone growth stimulants. He noted that this issue has virtually halted all sales of meat products to Europe. A second major trade barrier is duty rates. Geller cited the case of Korea where beef short-ribs are subject to 100 percent import duties. A third example of an institutional trade barrier is the Chinese market where consumers do not know how to use beef. A participant mentioned sanitary regulations as another major institutional trade barrier.

Discussion then turned to the difficulties encountered to market agricultural products in Japan. Geller noted that the key elements to overcome these difficulties are: a) to know the Japanese distribution system, and b) that the marketed products meet the Japanese specifications. He suggested that the best strategy to operate in the Japanese market is to have a local partner with adequate physical distribution services.

The final issue raised was the role of the Foreign Agricultural Service (FAS) in promoting exports of U.S. agricultural products. Geller suggested that FAS should focus on educating foreign consumers. Bruce Obbink from the California Table Grape Commission argued that FAS should concentrate on removing trade barriers to agricultural products because other government trade agencies do not contribute much in this area.