COMMODITY PROMOTION:

Who Benefits and *By How Much?*

➢ Promoting the consumption of U.S. farm products is big business. The amounts of public monies and farmer contributions used for this purpose are increasing and there are numerous proposals for additional national promotion orders. However, current efforts to track performance of these promotion programs are inadequate. Consequently, we don't really know who benefits from these expenditures nor by how much.

by Olan D. Forker and Donald J. Liu

EVERY YEAR, LARGE AMOUNTS OF MONEY ARE SPENT to promote the consumption of U.S. farm products both at home and abroad. Manufacturers and retailers make the most of these expenditures, yet, an increasingly large amount of promotion is paid for by U.S. farmers. In 1988, well over half a billion dollars was spent promoting over eighty different farm commodities—money that came from legislatively mandated contributions by U.S. farmers. Furthermore, this mandated promotion legislation is proliferating. Bills being introduced now include national promotion orders for soybean, fresh mushroom, lime and pecan producers.

In addition to farmers' monies, the federal government in FY 1988 invested over $100 million in programs that assisted commodity groups in conducting promotion activities in foreign countries. The total will be over $200 million in FY 1989. To receive these federal funds, participating commodity groups are required to invest some of their own funds as well, usually $1 for every $3 provided by the USDA.

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Commodity promotion is justified as a way to increase U.S. farm sales and/or farm prices of the promoted products. It is also justified in the name of good public relations—a way to maintain or improve the commodity's image and counter bad publicity. But, it is often not clear who benefits from these programs, how much they benefit, or if the benefits exceed the costs.

Who Pays and How Much

The most widely employed approach to collect promotion money is the commodity check-off, at both the state and federal level. Under such programs, the checkoff amount is taken out before producers receive their checks from the first sale. For example, the Dairy and Tobacco Adjustment Act of 1983 requires that the first handler of fresh milk deducts $0.15 per hundredweight from a dairy farmer's milk check. At least $0.05 of this "check-off" is forwarded to the National Dairy Promotion and Research Board. A producer can direct the remaining $0.10 to a qualified regional or state dairy promotion organization.

In 1988, over $200 million was collected to support the dairy farmer promotion program nationwide. About $150 million of the $200 million was used for TV, radio, and print advertising; the balance was used for retail promotion, public education, research, and program administration.

In addition, the Food Security Act of 1985 added national promotion assessments on commercial sales of beef at $1.00 per head and on pork at 0.25 percent of value at the time of sale. Together, these three federal programs—dairy, beef, and pork—generate over $300 million a year for commodity promotion activities. Most of the balance of the $500 million of commodity promotion money is collected under state legislated mandatory assessments. Almost every state has some form of check-off authority.

A less visible, but growing source of substantial promotion monies, is direct contributions from federal and state governments. With the passage of Public Law 480 in 1954 and successive legislation, USDA/FAS allocates money for export promotion programs. The Federal Cooperator Program and Export Incentive Program, and the Target Export Assistance Program supplement private foreign market promotion efforts sponsored by producer organizations such as the American Soybean Association, Cotton Council International, and the California Raisin Advisory Board. Expenditures on U.S. government subsidized export promotion of agricultural commodities in 1988 totaled $140 million, of which the federal government contributed over $100 million.

State governments also include agricultural commodity promotion as part of their overall economic development strategies. For example, the Massachusetts legislature spent nearly $2 million to promote the "Massachusetts Fresh" logo, and New York State spent $1.2 million to promote agricultural produce, including its "Seal of Quality" logo. California has a large export promotion program financed with public funds. Almost every state allocates some funds to promote their agricultural industry.

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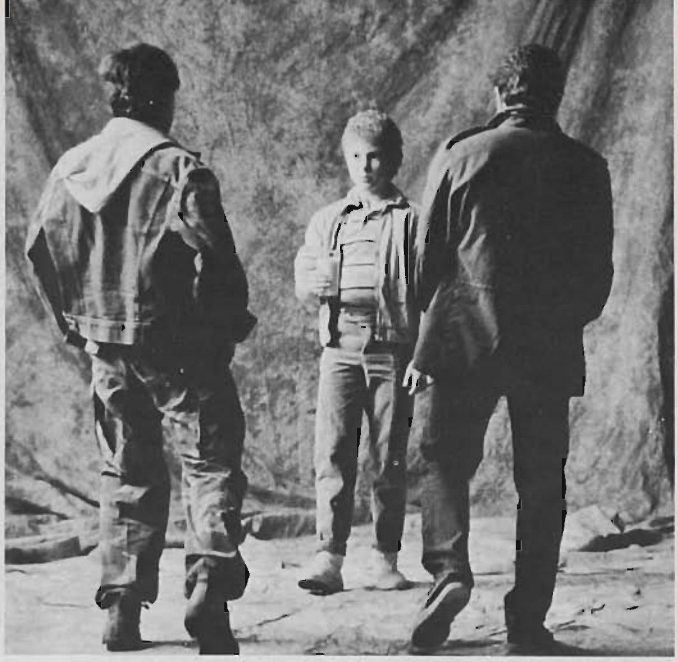

Courtesy National Dairy Board

Type of advertising increasingly used by U.S. farm producers to promote their products.

What is Known?

Because public monies are used, because most programs require contributions by all producers and because the amounts of money are large, the performance of farm commodity promotion programs should be tracked carefully and comprehensively. Current efforts are helpful but inadequate.

Commodity promotion groups largely focus their research on consumer surveys to determine awareness of their advertising and to measure attitude changes toward the advertised product.

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This information is useful in monitoring consumer acceptance of the advertising message and in designing advertising campaigns. However, this type research does not provide information on how much consumption has actually been affected by the promotion. It is in this regard that econometric models which estimate advertising-sales relationships come into play.

Econometric studies on citrus, milk, wool, potato, and egg promotion show a statistically significant positive relation between the level of expenditure on media advertising and the level of product sales. That is, sales at retail increase as monthly or quarterly levels of advertising expenditures increase. Also advertising has a carryover effect on sales—the increase in sales in one month may be the result of advertising in previous months. With milk and orange juice, the impact appears to carry over for 6 to 12 months beyond the advertising campaigns with the greatest impact occurring by the second or third month.

On the other hand, the rate of increase in sales diminishes as advertising expenditures increase, evidence that the law of diminishing marginal returns applies to advertising and sales as it does to fertilizer and plant yields. The diminishing marginal returns of advertising suggests a need for careful cost/benefit analysis.

These econometric studies take into account the effects of other economic forces that might also influence sales volume, such as changes in own price, consumer incomes, and the price of competing goods. Therefore, they provide reasonable estimates of the net effect, at the retail level, of the advertising effort. Consequently, the information and the models developed in these advertising-sales studies have contributed to our understanding of how commodity promotion works and can be used to help make program allocation decisions.

Unanswered Questions

Because they have focused on retail volume and prices, the existing econometric studies do not make clear the extent to which farmers benefit. Neither have they classified cost/benefit issues for consumers and taxpayers. Cross-commodity implications—how one commodity's promotion program impacts on the sales volume of another—have also gone unaddressed.

Impacts on Producers

The key assumption underlying commodity promotion is this: Commodity promotion causes an increase in the demand for the promoted commodity, total retail revenue increases, and farmers share in this increased revenue. But, farmers benefit only if this increase at retail works its way through the marketing system into higher producer income.

If processors and retailers have great market power, higher retail prices can result, without an increase in producer prices. In such a case, retailers could capture all of the benefits of commodity promotion. In most current research the influence of market structure is ignored.

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The milk promotion illustrates another problem related to market structure. Because the federal government maintains a minimum support price by purchasing manufactured dairy products, increased consumer demand for products such as cheese may only reduce government purchases. The government buys less and government costs are mitigated. However, producers do not realize a short-term benefit. Yet the program could still be beneficial. Lower government costs and a long-term reduction in government stocks could positively affect public attitudes toward the dairy price support program. Such taxpayer benefits and political gains to farmers should be considered.

Other producer issues relate to the supply response to higher commodity prices. For example, higher prices resulting from shifts in demand will encourage both U.S. farmers and foreign exporters

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of the commodity to increase supplies—possibly offsetting any short-term gains. The supply response to gains made through promotion is an important area for future research. This is especially the case for commodities such as orange juice where foreign imports constitute a major source of U.S. domestic consumption.

The distribution of costs and benefits of promotion programs among producer and consumer groups is a complex but nonetheless important area for concern. Boards and managers of promotion programs allocate funds across promotional activities (advertising, public relations, and new product development), across geographic market areas, across product forms (fluid milk versus cheese, ham versus pork chops), across media (television, radio, and newspaper) and across time. These decisions on where, how and when to spend promotion money affect gains and losses among producers and consumers. An understanding of the complex interrelationships is necessary if promotion resources are to be allocated optimally to the benefit of producers and consumers.

Finally, there is the "full stomach" dilemma. We're a well-fed country. Most of us are not hungry. Consequently, if advertising induces us to eat more of one commodity, it is reasonable to assume that we cut back our consumption of other products. Therefore, government sanctioned promotion of product 'A' may in fact be a government sanctioned handicap on commodity 'B'. The issue is complex. Promotion programs of one product can decrease the demand for some other products but increase it for others. For example, a successful promotion for beef could reduce demand for pork, chicken, and lamb, while at the same time increasing demand for potatoes, hamburger buns, and steak sauce. To account for the cross-commodity impact of promotion programs, evaluation research must encompass several commodities simultaneously.

Consumer Issues

Commodity promotion issues are typically viewed as producer issues. In reality the implications for consumers are equally important. The goal of promotion is to change consumer behavior, but it is not clear whether these efforts leave consumers better or worse off. Though the potential effect on the general public is large, research focused on consumer effects of commodity promotion has been largely ignored.

The argument in favor of commodity promotion is that advertising benefits consumers by conveying important information on the embodied characteristics of the advertised product. This information reduces search cost and helps the consumer choose the product mix they most prefer within their limited budget. Advertising also increases competition among sellers by broadening consumers' understanding of choices. Consumers benefit from advertising, however, only if promotional claims are accurate. If the promotion program does not provide useful information, the program costs are a loss to producers and to society. To address the impact of promotion on consumers, these costs and benefits must be verified and carefully weighed.

Data—The Bottleneck

Analysts have tried to broaden the scope of evaluation research. However, a major bottleneck is the inadequacy of data. The collection of data necessary to evaluate promotion is not a trivial task. The diversity of promotion tools (see inset) greatly complicates the collection of expenditures data. Consistent estimates of sales data for different consumption situations, such as at-home and away-from-home consumption, are expensive to compile. Availability of timely data on economic and social fac-

Commodity Promotional Tools

Advertising is by far the most visible and frequently used marketing tool of U.S. commodity groups. The distribution of messages about a product or commodity through mass media such as television, radio, newspapers and supplements, magazines, and billboards, is generally attributed with shaping consumers' perceptions and attitudes. For example, the ongoing television advertising that "Milk, It Does a Body Good" is designed to make consumers feel good about drinking milk and establish a strong market base for the dairy industry.

Merchandising, in contrast, is often used to stimulate quick sales responses. End-of-aisle displays, banners and signs, in-store product demonstrations, recipe booklets, and menus are designed to "push" the product through the retail levels.

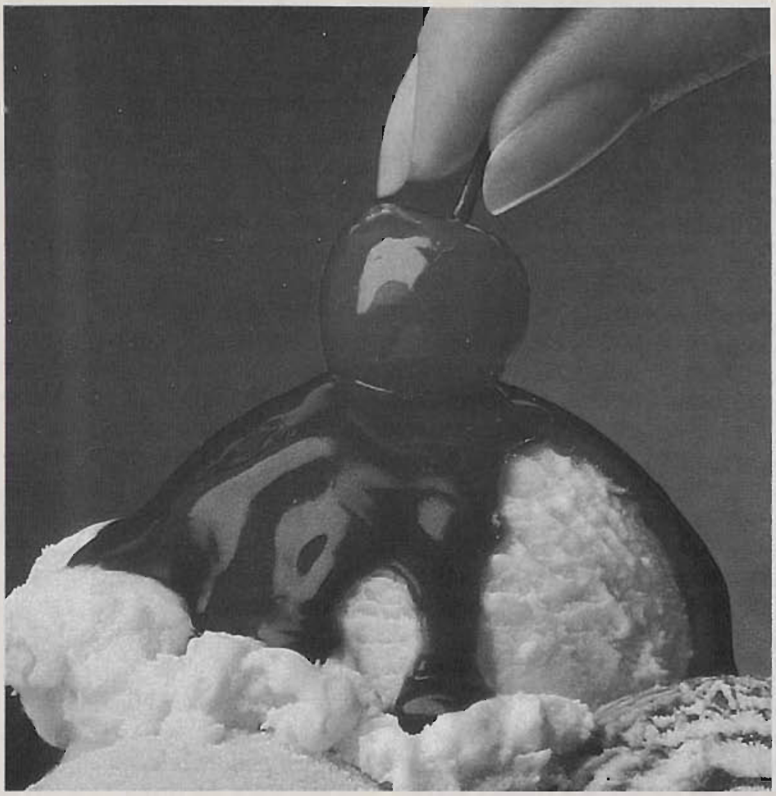
In-store promotion includes sample tasting in local supermarkets of "Wisconsin Cheese". Another short-term sales expansion scheme uses coupons and price rebates to provide consumers with temporary price incentives. These activities require smaller budgets than media advertising and lend themselves to seasonal promotions for quick movement of perishable products.

Public relations is a tool almost every commodity group has traditionally relied upon. The objective is to present a product in a favorable light, often to counter negative press. Thus, a news article describing the health benefits of calcium and naming dairy products as a good source of calcium is considered "good" public relations by the dairy industry and may be used as a take-off point for further promotions. Many promotion programs also include funds for new product research and related activities such as developing cholesterol-free products, new packaging designs, or new product uses.

Trade servicing activities to help develop markets include hosting trade conferences; assisting with displays at trade fairs; issuing trade press announcements; and hosting visiting study teams from foreign countries to learn about U.S. production capacity and the reliability of U.S. agricultural supplies. Technical assistance programs seek to stimulate long-term demand growth for U.S. exports by pinpointing how U.S. commodities can be effectively used abroad through feeding trials and demonstrations, animal nutrition seminars, and short courses by U.S. experts on agricultural technology. Finally, foreign importer listing and international marketing profiles keep U.S. exporters informed about the foreign economic and social environment in which they deal.

tors also poses a serious problem. Finally, the need to evaluate several programs simultaneously due to the cross-commodity impact of promotions requires substantial database.

Thus, there are simply many unanswered questions about commodity promotion and it is in the interest of the public and farmers to know the answers to those questions. Without the collection of appropriate data, those questions will remain unanswered and producers, as well as consumers, will continue to be uncertain of the value of commodity promotion.



Producer-Government Cooperation: One Answer

It is unlikely that commodity promotion groups acting alone will want or be able to overcome the data problems involved in more comprehensive evaluation research. It is unreasonable to expect individual promotion groups to consider promotion questions in an all-encompassing framework that looks at impacts on other commodity groups.

One strategy for addressing the problems currently plaguing evaluation of commodity promotion programs is to increase the public sector's role in compiling data, initiating research and providing analysis. Increased public sector involvement is justified on two grounds: to increase accountability—both to producers, who pay federally mandated promotion fees, and to taxpayers, whose monies go to publicly funded promotion efforts— and to assure comprehensive research which takes into consideration the impact of promotion on all parties, including producers.

Cooperation of the promotion organizations will be essential. The promotion organizations are best equipped to provide accurate program expenditure data and make sure that the research is useful and realistic. It is to the promotion organizations' advantage to cooperate with the government in program evaluation as the information generated will facilitate their understanding of the programs' impact on the welfare of their own producers.

To date, government involvement has been modest, either in setting guidelines, performing research, or ensuring the collection of appropriate and necessary data.

The USDA/AMS has oversight responsibility over promotion programs authorized by federal legislation. These include 22 Federal Marketing Order programs for milk, fruits, vegetables, and nuts as well as separately legislated programs for wool, cotton, potatoes, eggs, dairy, honey, beef, and pork. Except for dairy, the AMS must only make sure that assessments are collected properly and funds used appropriately. Program decisions and operations are the responsibility of the farmer Board of Directors and their staff. In the case of dairy, the legislation calls for an annual evaluation and report to Congress. This requirement sets the stage for data collection and economic analyses, but does not guarantee it.

The government should do more program evaluation. Under the purview of USDA, the identification of relevant economic issues could be substantially broadened from those currently studied by commodity promotion groups. Furthermore, the government has the means to develop a more uniform and comprehensive database on promotion activities and impacts. Effective data collection may, however, involve greater authority for the government agency and require promotion organizations to provide consistent and uniform data on promotion expenditures.

The Big Picture

Generic promotion programs represent one of the more significant group initiatives in commodity marketing. From small, fragmented, often voluntary groups of agricultural producers, commodity promotion programs have grown into large and complex organizations. In the future, more commodities will have check-off programs and the number of dollars involved is likely to increase dramatically.

Research results indicate that commodity promotion activities can and do have positive impacts on sales. But many questions about the broad impacts on producers and consumers remain unanswered. Since the programs are mandated by legislation, the programs must be accountable to the public. Commodity promotion groups and governmental agencies should join together to make sure the necessary data are continuously and consistently collected on advertising expenditures, prices, sales volume, and other related variables. They should also join together to conduct unbiased program evaluation. Current efforts are only the beginning of what is needed. C

For More Information

This article is based in part on a series of pamphlets titled "Generic Agricultural Commodity Advertising and Promotion." The pamphlets were prepared by the Northeast Regional Committee on Commodity Promotion Programs (NEC-63). Persons directly involved in the production of the pamphlets are W. Armbruster, T. Cox, O. Forker, G. Frank, H. Kinnucan, D. Liu, L. Myers, J. Nichols, R. Ward, G. Williams, and R. Wills. The pamphlets include:

1. Its Role in Marketing.
2. Program Funding, Structure and Characteristics.
3. Public Policy Issues.
4. Economics and Impacts.
5. International Programs.
6. Program Evaluation.

Copies of the pamphlets can be obtained by writing to: Publications, Department of Agricultural Economics, 52 Warren Hall, Cornell University, Ithaca, NY 14853-7801. Additional readings can be found in Proceedings from Research on Effectiveness of Agricultural Commodity Promotion Seminar, Arlington, Virginia, April 9-10, 1985, published by the Farm Foundation.