Research On Effectiveness Of Agricultural Commodity Promotion

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POLICY IMPLICATIONS AND RESEARCH NEEDS RELATED TO GENERIC PROMOTION

Walter J. Armbruster
Farm Foundation

There are at least two views of federal marketing programs to allow generic agricultural commodity advertising, promotion, and research. The first is that such programs help producers and are a permissible policy tool. Therefore, if producers want a program, the United States Department of Agriculture (USDA) should merely facilitate its establishment and administration. I characterize this as the "free market" view.

The other view is that use of generic agricultural commodity programs under federal authority carries a public policy responsibility. Government authority is involved in establishing and administering the program and there are likely to be trade-offs among commodity groups competing for shares of the limited total consumption by consumers. Therefore, accountability for the effects of the program are an integral part of the "public policy" nature of the program.

Free Market

Those who argue for the free market view reason that all producer groups are free to seek the same authorization for using this marketing tool. The producers bear the costs of the program and thus it should be their decision whether or not to institute such programs.

An alternative would be for commodity groups to fund such programs through cooperatives or other voluntary programs. However, since individual producers cannot be denied any benefits derived from generic commodity promotion activities, a free rider problem crops up and leads groups to seek government authority for mandatory programs.

The proponents of advertising generic agricultural commodities are concerned that some brand advertisements may in fact impinge on sales of generic agricultural commodities. For example, does branded cereal advertising take away some of the breakfast market for eggs? Or, does branded advertising of soft drinks have offsetting competitive effects with milk if they are substitutes in total fluids consumption? The argument is that agricultural commodities not subject to brand

differentiation, but competing with commodities for which brand advertising expenditures are large, may need programs to just hold their own.

Another reason for advertising agricultural commodities is to counter negative publicity. For example, a number of reports have focused on cholesterol and health concerns associated with egg consumption. In the case of potatoes, there appear to be widespread misconceptions about the caloric content of the potatoes. Potato advertising has emphasized the nutritional content of potatoes, especially if eaten without the accoutrements normally associated with baked potato consumption.

Assuming that producers will conduct such generic promotion programs under government sponsored authority, the research questions to be addressed by agricultural economists are several.

What is the impact on total returns to producers of generic promotion of agricultural commodities? What are the relative returns for advertising, market development, and research activities which all may be funded from the check-off proceeds? What level of check-off should producers seek for advertising and promoting commodities in the domestic and foreign markets and for conducting research?

It is generally recognized that the greatest export market growth potential for United States agricultural commodities is in middle and low income developing countries. As income grows in such countries, dietary shifts occur which generally result in increased imports of meats or grains to produce meat. United States exports tend to increase as a result of such shifts.

A recent study by Blandford [1] of changes in food consumption patterns in Organization for Economic and Cooperative Development (OECD) countries found per capita consumption is becoming less responsive to changes in income and appears to be reaching a ceiling in the majority of OECD countries. With population growth slowing, aggregate food demand will increase more slowly in the future. In most countries the share of diet composed of animal products is tending to stabilize. However, there are differences to be expected among various countries within these general patterns.

From a private policy viewpoint, generic promotion groups should choose carefully within groups of countries to which specific countries they allocate expenditures. The potential return on investment is likely to differ significantly among countries. Are market development efforts going primarily to middle and low income developing countries or are they going primarily to OECD, developed countries for which aggregate market growth potential appears rather limited?

Also, from a private policy viewpoint, it is appropriate to know the impacts of allocations of generic money spent on advertising and market development and on research to understand what characteristics

and product forms the consumer wants. Perhaps a shift in composition of the market within the commodity would lead to greater economic returns to producers. For example, selling more processed products or products aimed at specific subsets of the market may return more to the producer than just selling in an unsegregated market. Of course the economics of marketing margins and producers' share of the retail dollar need to be included in such analyses. Can agricultural economists give more research-based guidance to producer groups on the relative returns to the various possible activities?

Public Policy

Public policy issues arise from several sources. Economic reasoning and knowledge of elasticities and marketing margins indicate the costs of programs will be built into product costs and shared between consumers and producers. Of course, passing the cost of such non-price competition through to consumers is also found in brand advertising. But in brand advertising, presumably any higher prices that a brand is able to extract are due to the perceived difference in quality, perhaps created by the advertising.

The ceiling on United States total per capita consumption was illustrated elsewhere in this proceedings by Jeremy Wu using data for fluids consumption over time and changes within that total [3]. In addition to Blandford's study, other economic analyses generally support the conclusion that total food demand in the United States is relatively inelastic.

To the extent that aggregate demand growth is stable, it implies that trade-offs among agricultural commodities, or between agricultural and nonagricultural commodities, are the best outcome that may be expected from generic advertising of commodities. If advertising of agricultural commodities results in such trade-offs, are society in total and the producer involved better off or worse off? For example, does advertising pork reduce beef consumption or encourage increases in competing ads for beef? Who are the relative winners and losers, and to what extent have they gained or lost?

From the public policy perspective, research knowledge is needed on the level of intercommodity substitution, the effects on different size producers, and the impacts on consumers.

Research is needed to help policy officials determine whether a specific level of requested generic check-off authority is reasonable. Is it possible to develop economic criteria for identifying certain commodities that are suitable for generic promotion programs?

Research can help quantify the relative trade-offs to be expected from generic advertising between the advertised commodity and closely related agricultural commodities. For example, what are the cross elasticities of demand for pork versus beef; and the trade-offs between

agricultural and competing commodities, e.g., milk versus colas. And what impact does advertising have on the cross price elasticities between commodities?

Economic analysis may provide the information base from which the political bargaining process could determine the parameters of generic promotion [2]. Whether promotion is permitted under free-standing programs authorized directly by legislation or under marketing orders, there are trade-offs in any mandatory program. Economic understanding of the effects of these programs is needed for intelligent decisions.

If aggregate demand is unlikely to respond positively to advertising generic agricultural commodities, and trade-offs are likely between competing commodities, are there other alternatives for generic advertising, promotion, and research programs in the United States? Perhaps a good return to generic programs by producer groups could be gained from understanding what consumers want and attempting to provide it. For example, pork producers have markedly switched the composition of their live hog to provide a leaner product. The poultry industry supplies various products in convenient forms that market well to consumers.

There are also implications that the potential for significant returns on foreign market development efforts in the OECD countries may be rather limited, though the returns differ by countries. This leads to the question of whether public policy should support USDA cooperator programs in such countries where it is likely that shifts between close substitute products will occur.

The research implications are that analyses are needed for different countries, either by areas of the world or by development classes on the potential for expanding consumption in aggregate and for trade-offs between grain, vegetable, and meat products. It also implies a need for research based on analyses of consumer preferences to understand what commodities can be satisfactorily marketed in various countries. Both public and private policy decisions would be improved by better understanding the trade-offs likely due to income, price, and competing commodity cross elasticities for different commodities. Economic research could be funded under check-off programs to help increase the knowledge base.

Concluding Comments

In summary, whichever viewpoint one holds, some questions about agricultural commodity policy are involved. Should policy be to disallow any generic advertising of agricultural commodities, to require analysis for better informed public and private policy decisions related thereto, or to allow generic advertising only if the commodities meet

specified economic criteria? Certainly these questions imply research needs for improved policy decisions.

Efforts are underway to shed light on some of these concerns, yet much remains to be done. For those interested in freely permitting commodity promotion, I think research related to the total returns obtained from advertising expenditures are of paramount importance. Knowledge of returns to promoting commodity subsets and promotion commodities in different markets and in different countries would all be useful for both public and private decision making.

REFERENCES

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