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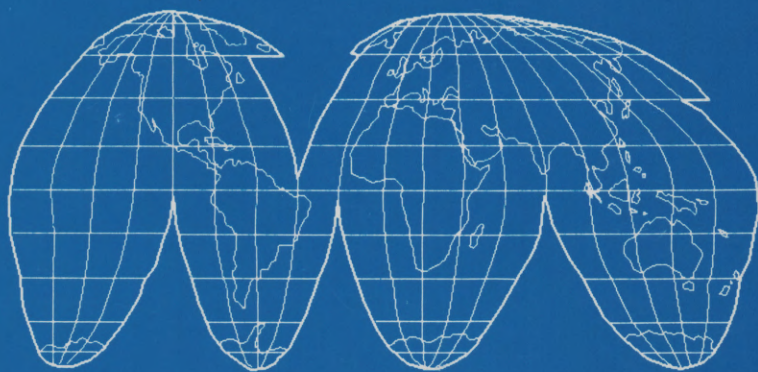
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# Commodity Promotion Policy

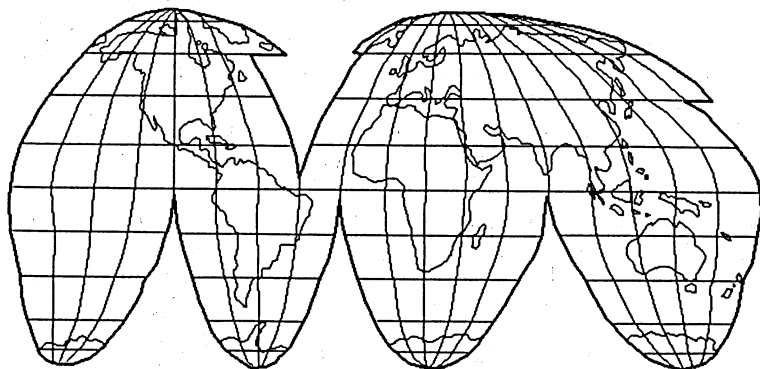


in a  
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# Commodity Promotion Policy



## in a **Global Economy**

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**A PROPOSED  
GENERIC COMMODITY PROMOTION  
RESEARCH AND EVALUATION CENTER**

## A PROPOSED GENERIC COMMODITY PROMOTION RESEARCH AND EVALUATION CENTER

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Enough economic analysis has been completed to show that advertising can and does have a positive impact on sales. In general, the research indicates that the more we invest, the greater the impact. The analysis also shows that economic analysis can be used to determine which advertising expenditures have strong market impacts and which have relatively weak market impacts. We have analysis examples for the generic advertising programs for apples, beef, catfish, citrus, dairy, eggs, potatoes, soybean exports, fresh tomatoes and wool. These efforts are to be commended. But these research efforts have merely scratched the surface of the potential for a better understanding of the economics of generic commodity advertising. And it is my impression that only in a few instances have the economic analyses been done in such a way that they can be incorporated into the planning and implementation process of a commodity promotion organization. Not enough has been done to provide a comprehensive approach to economic evaluation. Not enough has been done to provide answers to questions about the overall returns on investment, about how much to invest in various program activities, nor about how the advertising of one commodity affects the price or sales volume of other commodities.

A few examples of what *has* been done will help to make my point. An analysis of the Washington apple advertising program yielded information about the impact of the program on the price of apples over the study period. It also yielded information about the difference in impact between television and radio advertising (Ward and Forker). The apple advertising model can be used by management and the board to determine the best combination of television and radio advertising under different expenditure levels. The model can also be used to help determine the best probable expenditure patterns for different supply conditions. Thus, although the model does yield an estimate of the return on investment during the period studied, the real benefits of the study come from its value in helping management make better decisions about expenditure levels and allocations among program activities.

Studies of the fluid milk advertising programs in New York markets have helped the American Dairy Association and Dairy Council (ADADC) and the New York Milk Promotion Advisory Board reallocate funds among markets to come closer to maximizing market impact on producer prices (Liu and Forker). Economic studies of the dairy industry advertising programs have helped in decisions to alter generic butter advertising programs in Canada and cream advertising programs in the United Kingdom (Chang and Kinnucan; Goddard and Amuah; Bryant; Strak and Gill). A dairy industry model has the potential to help in decisions about how to allocate U.S. generic dairy advertising dollars among the various dairy products (Liu, et al.). So far, the only information from this latter study that has been utilized much is the return-on-investment number of \$4.77. That number is not valuable from a management perspective. The important numbers for management are those that indicate that the producers' return from fluid advertising, at the then current levels, was much higher than the return from the generic advertising of manufactured dairy products. The major impact on the manufactured dairy product market was to reduce the level of government purchases. If the objective is to increase producer income, then taken literally, the management decision should be to allocate all funds to fluid milk advertising. Money invested in manufactured product advertising cannot be justified unless a better advertising or promotion approach is developed, or if the government dairy price support program is phased out.

The reason for giving these examples is to show that economic analysis has potential in helping make policy and program management decisions. But the economic analysis has to be well done, using high quality data. In general, the data are not as good as they should be.

Note that I have given examples only of generic advertising studies. I have not given examples of economic studies of other program activities because none have been done. A great deal of work remains to develop a theory of evaluation across all of the actual and potential program activities before we can expect good empirical work to evolve for the nonadvertising promotion programs. There is a need for better means of extending the information that we do have to policymakers and practitioners. More knowledge about economic impact is available than many realize. But there is still a lack of adequate economic analysis to insure that funds are optimally invested.

### **The Need for a Center**

The commodity promotion industry could greatly benefit from a coordinated effort to develop a more comprehensive theory of program evaluation, collect and archive data, further develop empirical

methods of evaluation, and more effectively disseminate the knowledge base. A center is one way to get this accomplished.

Farmers who fund these programs want and deserve to know that boards and staff are doing the best job possible to insure the greatest possible market impact. They would also like to have a way of knowing when it would be good business practice to either increase the level of assessment, decrease it or eliminate it entirely. A center is one way to help generate and disseminate sound and useful information to guide policy and program decisions.

NEC-63, the principal sponsor of this program, has developed a research agenda for the 1990s. The agenda includes some specific research suggestions and calls for continued objectivity and continued improvement in methods of analysis. It also includes an important suggestion to establish an organizational structure, a center or institute, that would focus studies on the economics and evaluation of commodity promotion programs. Coming from NEC-63, the proposal has the support of a large number of individuals from academia, government and industry.

### **Purpose and Objectives**

As we see the center program, there would be two equal purposes. The first is to provide a mechanism to collect and disseminate knowledge and information about the economics and evaluation of commodity promotion organizations. The second would be to conduct and coordinate research. The arrangement would be designed to achieve efficiencies across commodity organizations and perhaps even among nations. Canada has been involved in NEC-63 and they want to be involved in a center. The center would serve both public and private interests. Specific objectives would include:

1. Support, coordinate, and/or conduct studies to identify key economic relationships and evaluate the impact of specific promotion programs.
2. Develop and maintain comprehensive data bases relevant to commodity promotion research and evaluation.
3. Facilitate the development of new theory and research methodology.
4. Coordinate multi-commodity and multi-country research and evaluation.
5. Enhance the understanding of economics and effectiveness of commodity promotion programs on the part of both public and private policy decision makers.

### **Functions**

The functions of the center could be divided into two categories, research and support. The research function would include:

1. Collecting and archiving of data necessary for the research and service support.
2. Conducting economic analysis to determine the extent to which advertising and promotion efforts influence sales of the commodity being advertised as well as their impact on the sales of other commodities.
3. Conducting economic analysis to determine the role of generic advertising in relation to brand advertising.
4. Developing research methods to provide objective and valid estimates of the economic relationships such as price, income and demographics.
5. Developing evaluation methods for all aspects of commodity promotion programs.
6. Developing research methods for international promotion programs as well as the domestic programs of countries supporting the center.
7. Determining appropriate funding levels for commodity promotion programs.

The service support function would include:

1. Providing data to universities and other organizations interested in and capable of doing research in this area.
2. Coordinating and enhancing the quality of economic research activities at the center and among other universities and promotion organizations through conferences, workshops and forums.
3. Sponsoring conferences to present and discuss research results and related issues.

### **Organizational Arrangements**

NEC-63 proposes that a research and evaluation program—whether it be called center, institute, or some other name—be established at a university. We propose that it be located, at least initially, at Cornell University and that a member of the Cornell faculty be the initial director. The center should have a core staff that could develop evaluation techniques, collect and archive data and conduct basic research. The core staff could do specific evaluation projects to develop a better overall understanding of what is going on, or conduct research projects for specific commodity promotion organizations.

Two issues need to be resolved. One, how does such a program get funded? Second, who would be involved in doing the analysis? First let me address the funding issue. One possibility is to have two kinds of funding. One to support the core staff and its operation. The other to support specific research projects.

Some of the core funding should probably come from public sources. This would help the center maintain objectivity. This would provide the resources to develop evaluation methods and collect and archive data. But some core funding should come from individual



promotion organizations. Each of them has a stake in making sure that good, solid, objective evaluation is done. They could participate in supporting the core by paying some sort of an annual membership fee. In return for the annual fee they would have access to the expertise of the center and participate in meetings and conferences sponsored by the center. By providing core support the promotion organizations could show commitment to the support of objective evaluation research. They would also show commitment by providing some of the data necessary for good, sound, objective evaluation.

The second source of revenue should come from contract work for specific commodity organizations. The contribution of the core budget would permit an organization to have access to research results, evaluation methods, and the expertise of the center for additional research. An organization could not contract for specific research through the center unless they also made a contribution to the core program.

Concerning commodity promotion organizations' core support, it should be possible to arrive at an assessment rate tied to the size of the budget of the promotion organization. If all the commodity promotion organizations voluntarily participate, it should be a relatively small amount of money from any one organization. If federal funds were provided, the core support from commodity promotion organizations would be modest.

Cornell University's College of Agriculture and Life Sciences has agreed to not charge the usual overhead. All the funds paid into the program would be involved in the support of the core program activity and/or the support of specific research projects.

The second issue has to do with who would do the analysis. Individuals with the necessary expertise are located at universities in the United States and Canada. It would be expected that a large part of the research would be conducted by academic personnel at other universities, probably those associated with NEC-63, although it would not be limited to those individuals. Selection would be based on interest and ability to conduct the appropriate research.

### **Center Benefits**

By conducting economic analysis and evaluating the ongoing programs of commodity promotion organizations, the center could provide more insight into the economic costs and benefits of following various strategies. The farmers that support these programs would have more comfort in knowing that the economic consequences of the programs are being identified, incorporated into the decision-making process, and made available for their use in deciding whether to continue the programs. The commodity promotion organization board members and managers would have access to economic information so they could make adjustments in budget allocations and

program activities to achieve more near optimum market impacts. Policymakers would have more comfort in knowing what impact the legislation was having. It would also provide information about the most appropriate checkoff level.

The information generated by a program of this kind would not substitute, however, for the creative and imaginative work of the managers or the professional talent the promotion organizations employ to design and implement the advertising and promotion programs. The economic analysis can only measure the impacts of programs that have been tried. It is obvious from prior research that the quality of the program effort does make a difference. The economic analysis provides additional information to identify problems or shortcomings in existing programs and provide guidance for considering other options. The economic benefit comes from the ability of the organizations to adjust their programs over time to achieve the best possible market impacts.

### Summary

Many of us feel a center would be useful. We envision a highly professional, well-organized core staff and core program that could provide valuable insights on how to evaluate program activities. We envision an arrangement that would help coordinate economic analysis across commodity promotion programs. The center would match the economic research needs of commodity organizations with the individuals that could do the research. Every effort would be made to develop a productive, effective working relationship between the appropriate staff of the various commodity promotion organizations and the core staff and individual researchers associated with the center. The center would sponsor workshops and conferences for all participating commodity promotion organizations. Over time the center would evolve a national and international reputation as a place where anyone interested in commodity promotion program activities might go to get the most recent information and the most objective and professional answers to questions about commodity advertising and related programs.

In closing I would like to ask everyone present to think seriously about such an idea, discuss it with your colleagues or the CEO of your organization, and provide me with some feedback as to feasibility and interest in involvement.

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