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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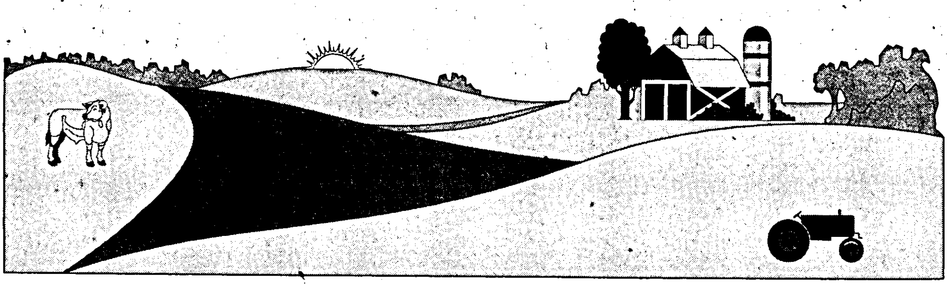
The Research Committee on Commodity Promotion (NEC-63)

The National Institute for Commodity Promotion
Research and Evaluation



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INSTITUTIONAL SETTING AND ISSUES: DISCUSSANT

Ronald W. Ward

First, let me recognize both Mike and Bruce who are experienced leaders intimately involved in the day-in and day-out problems associated with commodity organizations and pressures from special interest groups. There is no one organizational structure that will remove the problems associated with cooperative efforts. Cooperation between commodity groups and trade associations solves some industry problems but create others. Under any organizational structure there will be subgroups with vested interest. Goals and positions on important issues will be different, even in industries that produce a highly homogeneous product. It is easy to talk about structural and organizational change when you do not have to go head-on with interest groups. Compromise is the rule rather than the exception. As both speakers reviewed their various experiences with organizational change, they have drawn conclusions recognizing common industry needs while equally recognizing that compromise must prevail. One can look at the beef restructuring as an excellent example of the importance of consensus building through compromise. For many reorganization plans the theory of second-best is probably the only choice.

Before briefly responding to each speaker's comments, let me concentrate on the general problem setting leading up to collective group action such as the commodity checkoff programs.

Collective and Trade Group Issues

Most commodity organizations are designed to deal with market enhancement, industry advancement, and efficiency issues. Often these organizations serve as a clearinghouse for disseminating information. Market enhancements and efficient gains must be addressed on a case by case basis. It is impractical to offer one organizational structure as the optimal for all industries since the goals, issues, and existing market arrangements most often differ with each conunodity sector. Neither Mike nor Bruce suggested moving toward some type of optimal arrangements for the two commodities for which they have responsibility. Also, one must recognize the limited role that most commodity organizations have in terms of impacting markets, especially in the short run. Most commodity organizations have little capacity to influence aggregate production and that is usually the major factor influencing the fluctuation in commodity prices over time. These commodity organizations generally do not become directly involved in the exchange transactions and the direct process of selling. Rather, one must view these groups as facilitators while recognizing the important limits that they have.

While acknowledging the uniqueness of each commodity industry, I would like to identify some common areas and/or issues that exist among most of the commodity and trade organizations. In Figure 1, four boxes are shown with the continuous linkage among them. A weakness in one or more of the four areas can be the key to failure of a cooperative effort to deal with industry issues. Let me briefly comment on each box noted with Figure 1.

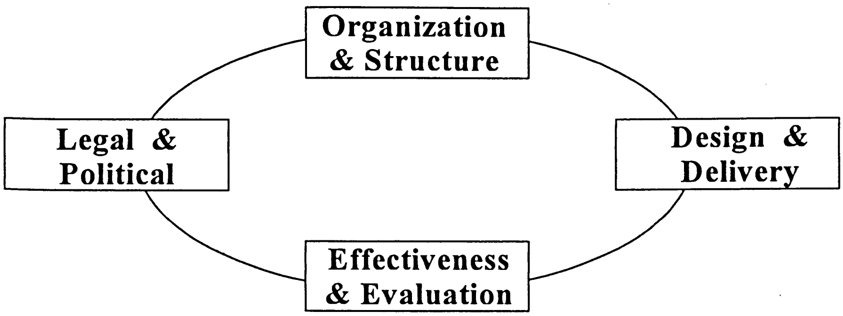

Figure 1. Grouping of problem areas within commodity organizations

Starting with the organization and structure box, I am referring to the institutional arrangements and rules set up to administer the commodity group. Five issues are of major importance here. *Assessment* rates must be set. *Who pays* the assessment must be defined to prevent significant free rider problems. The system must be free of decision making *bottlenecks* and/or *duplications* with other arrangements in the same industry. The institution, boards, and staff must have the *trust* of the industry since most strategies emanate at this level. Finally, the organizational arrangements must have adequate build-in *flexibility* to adapt to inevitable changes within the industry.

Moving clockwise around Figure 1, the design and delivery box entails problem identification, program planning, and implementation. It is at this stage where much of the creative marketing strategies evolve. The marketing plans must include pro-active strategies, yet have the ability to be reactive when the event demands a response. Adequate funding is often the limiting factor influencing this part of the structure.

The third box includes efforts to judge the outcome and performance of the commodity group efforts. One should have some idea beforehand about the potential impact of programs. Is it feasible to expect a large change in demand due to checkoff efforts? Likewise, it is essential to put the potential effectiveness in perspective to all other factors that concurrently influence the market. At the same time, an evaluation plan needs to be in place.

Finally, I have labeled the fourth box as legal and political issues. Political issues are primarily important to the different interest groups within the same industry. Most often the compromise seen in many commodity institutional arrangements is a direct product of various political issues. For example, beef producers and beef packers may have different objectives even though both have a common interest in the vitality of the beef industry. While political issues can usually be solved through compromise, legal issues have another unique dimension. With the legal setting, the rights of the individual can stand in conflict with the group rights. Under trade associations where membership is voluntary, individual rights should not be a major issue since the individual can choose not to participate. Whereas, under the mandatory arrangements referred to in the discussion, individual rights versus the group are dealt with through the legal process. Recent cases in Califomia have shown that one or more individual rights can take precedence over the ability for the group to act collectively. In fact, the legal issues of individual rights may prove to be one of the more important problem areas in dealing with mandatory participation. At one extreme, mandatory participation occurred because of individual free rider problems where one or more individuals benefitted from the effort but refused to pay his or her share of the costs. Now some of the recent California cases almost prevent the group from collectively implementing certain programs because of the individuals rights.

Obviously, the scope of my comments and time limit any detailed discussion of the underlying issues implied with Figure 1. What is important, however, is to recognize the fundamental differences that will evolve in each of the four areas when we are talking about trade associations versus mandatory checkoffs.

Why Group Organizations Exist

Trade organization and/or mandatory programs evolve when there are issues and opportunities common to the industry. Individual goals may not be consistent with the total industry goals. Sometimes an individual's actions can have a negative impact on the total industry. For example, marketing an inferior grade could impact the total demand for the commodity. In contrast, one individual may face considerable diseconomies of scale that could be overcome when combined with other sirnilar producers. Without going into great detail, I have listed below a few important reasons why commodity organizations have evolved:

- Recognition of common interest and economies from group action in some cases
- A way to deal with potential free rider problems
- Unique industry events that could not be individually addressed
- Growth in competition from foreign suppliers
- Foreign market opportunities
- Changes in legislative format and rules that facilitate cooperation
- Expanded media capabilities and opportunities to reach consumers
- Opportunity to leverage industry dollars with government programs
- Health issues and the need for nutrition education
- Expanded communication capabilities among producers
- Reliance on industry action instead of government programs
- Underlying attributes of the commodity and consumer knowledge
- Recognition of changes in consumption habits through time
- Growth in productivity and supplies
- Underlying economic risk associated with most commodities
- Recognition of the importance of uniform quality and standards

While the list above suggests reasons why cooperation occurs, the problems must be viewed on an industry-by-industry basis. In some industries, interests may be so diverse that cooperative and coordination'are unlikely. For example, the interest of Florida citrus, which is primarily processed oriented, may be substantially different from the California citrus industry where fresh marketing takes on more importance. Reaching a consensus among larger groups is probably compounded. Sometimes economies gained through pooled checkoff funds for media purposes can be partially negated through diseconomies of scale in management of larger organizations. The potential conflicts of interest among units increase with an expanded effort to cooperate.

The Beef Case

Our discussion of commodity organizations and trade associations is timely in that the beef industry is going through major reorganizational change. Bruce outlined the steps that the beef industry has taken in order to deal with important problems among existing organizations within the beef industry. He notes that consolidations of the existing organizations should provide better industry focus, coordination, efficiency, and control over resources.

As I view the evolution of the proposed changes to the beef industry, three things seem to stand out. First, while the reasons for consolidation have been articulated and debated, it is still very difficult to place a direct economic number to the gains that will occur. Considerable debate still exists about some of the cost savings that are expected. Second, due to political and legal reasons, it has proven impossible to completely consolidate the four major organizations Bruce identified. Referring back to Figure 1, the last box has placed restrictions on the initial beef consolidation plan and a compromise solution was designed. Third, structural reorganization means a change in the infrastructure and dealing with staff. This can be a particularly difficult problem, especially when organization standing alone has had strong effective leadership. The transition plan can be as difficult as designing the initial reorganization.

When one looks at the beef case, it is clear that the final organizational structure is limited by the role of mandatory versus voluntary sources of funds. The Livestock and Meat Board and the National Cattlemen's Association are trade groups. Whereas, the Cattlemen's Beef Board is mandatory through the beef checkoff. Given the restrictions on the use of checkoff dollars, and in particular the restrictions on use for lobbying, the accounting problems and potential for questioning the expenditures will most likely prevent a complete consolidation of the major beef organizations. Industry leaders have argued for consolidation, but the legal issues place practical constraints on what can be achieved.

The Pork Case

Pork is influenced by the beef industry reorganization since the Pork Council is part of the Livestock and Meat Board. This is a good example of how one industry's reorganization influences another industry. It still is not clear to me what economic and coordination impact the beef changes will have on the pork industry. My guess is that it will be minimal since the Pork Council is not as heavily involved in the design and implementation of their programs (see Figure 1 right box) as seen for the Beef Council.

Mike identifies several reasons for having the pork organizations. One in particular was interesting in that he notes that it can reduce unhealthy competition among producers. I would like to see a little more detail on this issue. He also notes reasons where close relationships among commodity groups with the industry may create potential problems. Conflicts of interest and accountability of the use of the checkoff funds were noted.

I agree with Mike's observation that there is not a necessary conflict between producers and consumers. In fact, most of our research fails to capture some of the benefits that consumers can realize from these checkoff programs. The quality assurance and nutrition education benefits are two he noted.

Pork provides a good example of how a consolidated organizational effort can be used to influence consumers about a generally well-known product. Specifically, the pork industry's program to reposition pork as the "other white meat" is generally viewed as successful. It is doubtful if this program could have ever been implemented without cooperation among the various pork groups. Likewise, it is probably impossible for producers individually to bring about such change in perceptions.

Observations

Both beef and pork represent two commodity industries with checkoff organizations that seem to be working, yet while reorganizing. The success probably lies in the leadership as much as the underlying organizational arrangement. As one looks at these industries and commodities in general, the extent of cooperation between checkoff and trade associations is governed mostly by the expenditure trail where the checkoff dollars go directly to market enhancement efforts. The legal issues associated to the accountability of the various checkoff dollars will probably be a barrier to consolidation with various trade groups. This will be particularly true where the trade group provides lobbying efforts. As we look across the commodity groups, it appears that the legal issues associated with individual rights noted in Figure 1 could become the most important impediment to consolidation, cooperation, and collective action.