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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

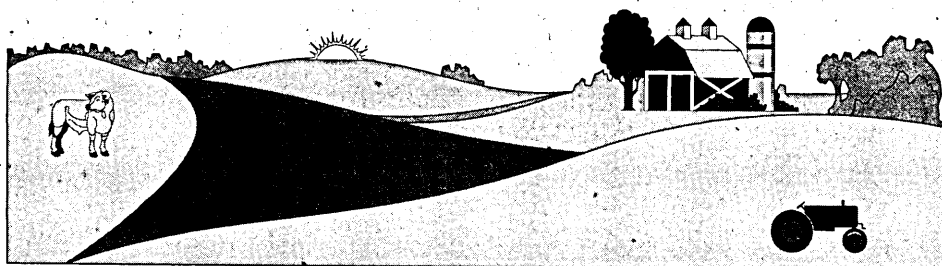
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CONCLUDING REMARKS

Olan D. Forker

NEC-63 has come a long way since a few interested people organized, in 1985, a conference on "Research on Effectiveness of Agricultural Commodity Promotion." The papers were published in a proceedings issued by the Farm Foundation. This set the stage for the establishment of NEC-63. The initiative came from a few people from academia, government and industry who were doing research, motivated in part by the passage of national checkoff legislation for dairy, beef and pork. They had begun to realize that farmers were going to invest, collectively, a lot of money in trying to expand the demand for their commodities. An obvious question follows - Will the effort really benefit the farmers that will be paying for the program? What are the economic implications of mandatory checkoff programs?

The individuals that organized NEC-63 had two objectives in mind. One, to make sure that academic research in this area had some industry input in design. Second, to make sure that the research is objective and of high quality. NEC-63, and the analysts involved from academia, government and industry, have been very effective in achieving those objectives. In our meetings and publications we have been concerned about the quality of research and in getting representative involvement from across the various interest groups. We have had very successful meetings twice annually since 1985. We have published proceedings and three have been published as books. We published a set of leaflets in 1988 which provided a great deal of useful background about commodity promotion programs.

In 1989 we established and published a research agenda for the 1990s. Included was the idea of establishing an Institute for Commodity Promotion Research and Evaluation. This latter objective has been accomplished with funding from the federal government. So far we have been successful and we want to keep up the momentum. For the future I challenge the leaders of NEC-63 to continue to maintain objectivity in all research, continue to enhance quality of research, continuing to improve communication of research needs and results, and continue to improve interaction between research analysts.

In recent years, I have begun to sense a level of increased confidence in our ability to do meaningful economic evaluation. One reason, I believe, is the ability to meet and discuss research issues in an open forum. Another reason is that we have completed among the group a relatively large volume of empirical research defined to measure the advertising effects on commodity sales and price. Research has been completed on a range of commodities. For some commodities, different methods of analysis and different time frames have been used.

Repetition of research across commodities and across time by several different analysts causes one to feel more comfortable that the results are valid. As always, repetition, replication and peer review make for good science.

I would like to make a few points before closing:

First, it is very important for continued success of NEC-63 and for quality research that we maintain good communications between the practitioners in industry and the academics doing much of the research. This has been dramatized at this conference. Many new ideas have been generated and I sense a greater degree of acceptance of the importance of sound economic evaluations of commodity checkoff programs. The relative high quality of some of the empirical work reported here at this conference resulted from close interaction between the academic analyst and specific promotion organizations. A close working relationship helps to increase the probability that the data is of high quality.

It also helps direct the research toward measuring the objectives of most interest to the people involved in running programs. It is also important that the research be exposed to peer evaluation. This is the only way that we can be relatively certain that the correct methods of analysis are being used and that they are being used in the right way. NEC-63 has been very effective in facilitating peer review.

The second point has to do with the stated objectives of commodity promotion programs and the measurement of those objectives. Almost every statement I hear from commodity promotion executives concerning their programs, focuses on increasing sales volume. Most of the economic analysis that we do focuses on the impact of the program on price. This is because almost every commodity has a fixed supply available to market in any one year. Thus, no matter how hard advertisers try, they will be able to sell only the volume that is produced in that year. The effect then of expanding the demand for an agricultural commodity is to enhance price above what it would have been without the promotion effort.

Therefore, we have an interesting paradox. The objective of management is to increase sales volume. Since the only volume that can be sold is the volume produced, the real impact, if any, is going to be on price. If the program is effective in the short run and somewhat higher prices result, then production and supplies are likely to be larger in the long run than they would have been otherwise.

The third point I would like to make has to do with the apparent movement to consolidate all promotion organizations for a commodity into one organizational framework. The objective, of course, is commendable. Consolidation will eliminate redundancy, get rid of overlap, achieve some economies of scale. Some cost efficiencies will no doubt result. But, I have some concern about this movement. One needs to be careful that there continues to exist some form of competitive pressure for continued improvement in the performance of the program. The dairy industry prior to the enactment of the national checkoff legislation in 1983, had one national program and a few independent state programs.

The creation of the National Dairy Board provided a competitive environment that brought forth more dynamic and creative program efforts. Recently, a checkoff for fluid milk processors was established in California and a National Fluid Milk processors checkoff was established for the whole United States. It is clear to this observer that the existence of two or more competing organizations increases the probability of having a dynamic effective program effort. There is some value in creative competition, even among promotion organizations for the same commodity.

My last point has to do with the press release of the Center for Science in the Public Interest. They have been influential in getting two Congressmen, Huber and Zimmer, to introduce legislation to repeal the export promotion programs and to reform the domestic industry-supported promotion programs. A movement is underfoot to eliminate all programs that provide farmers the ability to

act collectively in the market place.

As researchers we need not, nor should we, take an advocacy position. But we should make sure that all the appropriate and relevant data on research results get introduced into the discussion. Any policy decision should be made with sound and complete information concerning the economic impact of the policy.

Since we have been doing economic analysis of these programs, we will probably be asked to defend them. In providing economic information that can be introduced into the discussion, we do not want to get caught in the act of promoting a program or policy just for the sake of saving it. We should focus on providing information that is objective, is based on objective analysis and is directed to the relevant issues. We want to focus on providing information that will be valuable in the discussions no matter which side our data favors.

In summary, I am very encouraged by the papers and discussion of the past two days. We appear to be developing and maintaining a higher level of professionalism with each passing year. There seems to be a strong desire to maintain objectivity, improve the quality of research and communications. I'm also encouraged by the quality of the people involved. Over the years additional people from academia, government and industry have been attracted to this area of inquiry. The evolution of NEC-63 has been positive, and I feel comfortable and confident in stating that the future looks positive as well. We can look forward to some very worthwhile research on the economic evaluation of commodity promotion programs coming from this group.