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NEW METHODOLOGIES FOR COMMODITY PROMOTION ECONOMICS

PROCEEDINGS FROM THE NEC-63 CONFERENCE

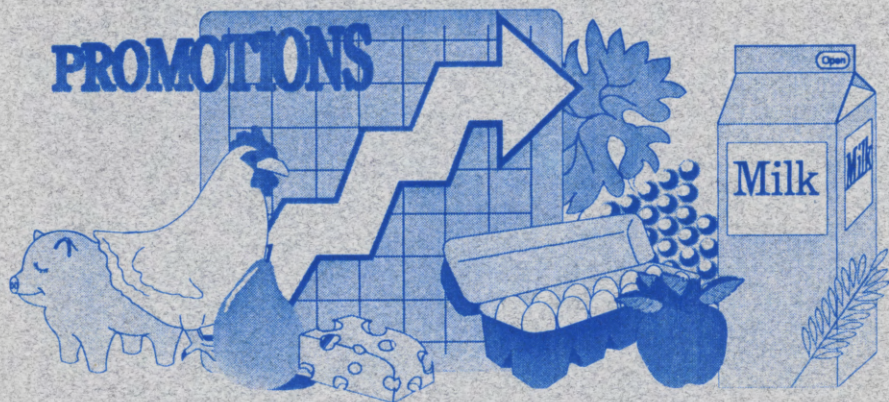
Red Lion Inn ❖ Sacramento, California ❖ October 5-6, 1995

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SPONSORED BY AND PUBLISHED WITH THE SUPPORT OF:

The Research Committee on Commodity Promotion (NEC-63)
and
The National Institute for Commodity Promotion
Research and Evaluation



History of NEC-63

Olan D. Forker

Introduction:

The improvement and maintenance of the quality of research and the integrity of the individual researcher is the major concern of all academic professions. This quality issue was the major motivation behind the creation of NEC-63.

Such concern goes back several decades. Alois Wolf, in 1944, wrote an article in the *Journal of Farm Economics* that was very critical of the empirical work put before the public during the 1930s and 1940s in support of commodity promotion programs. If commodity sales or prices went up, the advocates were quick to credit the increase to advertising programs. None of the work being done at the time accounted for other economic and social factors that might have caused increases in consumption or sales.

Two separate articles in 1959 issues of the *Journal of Farm Economics*--one by Sid Hoos of UC Berkeley and the other by Fred Waugh of the USDA--suggested ways to analyze the economic impact of commodity promotion programs. Hoos provided a comprehensive review of theoretical issues. Waugh developed conceptual models. Both were rigorous on theoretical issues, firm about the importance of asking the right questions, predictive about the need for empirical work, and optimistic about the probability of positive results--if the right questions were asked and the right methods were used in analysis.

Nerlove and Waugh, in 1961, published one of the first research articles that asked the right questions and used the right methods to measure economic benefits. This is a classic piece of research in which distributed lag function was used to measure the carry-over or lag effect of advertising on sales. By accounting for the effect, they were able to measure any positive influences of the advertising program on sales. Prior attempts that did not account for the carry-over effect concluded that advertising was a complete waste of money. I discussed, in greater detail, the chronology of research directed toward evaluating promotion programs in an article I presented at the seminar that antedated the establishment of NEC-63.

That seminar, held in Arlington, Virginia on April 9th and 10th, 1985, provided the basis for organizing NEC-63. However, much had happened between the time that Waugh and Hoos wrote in 1959 and the year of our first conference in 1985. At least two commodity promotion organizations had decided that they needed to support economic analysis (evaluation) or as some say, return-on-investment analysis. They were the Florida Citrus Commission and the New York Milk Promotion Advisory Board. The Florida Citrus Commission with the help of Leo Polopolus, then the Chair at Gainesville, established a small research unit within the Department of Food and Agricultural Economics at the University of Florida. This unit was established around 1970 and had broad responsibilities, the primary one being to do return-on-investment research of the promotion programs.

Also in the early 1970s, the NYS Milk Promotion Advisory Board was created after a mandatory checkoff program for New York milk producers was established. The board, recognizing that they needed to justify continuation of the assessment, asked for help from

Cornell University to conduct concurrent economic evaluations of their investments in program activities. Faculty at Cornell University have been conducting ongoing studies ever since.

By the early 1980s, it was obvious that U.S. agriculture was going to have a lot more commodity specific mandatory checkoff programs. Since little had been done to determine whether or not this made any real economic sense for farmers, let alone consumers or the public at large, a group of us thought that it was time to recognize this as an important area of research for agricultural economists.

The 1985 Arlington Seminar

In 1984, Walt Armbruster of the Farm Foundation and Les Myers, then of the Economic Research Service (ERS) asked a group of us to organize a seminar on "Research Effectiveness of Agricultural Commodity Promotion." Members of the planning committee were: William Black of Texas A&M; Ken Clayton of ERS; Bob DeMuth of J. Walter Thompson (an ad agency); Garry Frank, Drake University law faculty; Mary Kenny, Agricultural Marketing Service (AMS); Bill Manley, AMS; George Rossmiller, Foreign Agricultural Service (FAS); Ron Ward, University of Florida; and myself. The seminar was held in Arlington, Virginia on April 9th and 10th, 1985 with the proceedings published in the "Red Book."

At that meeting, we had broad representation from academia, government, advertising agencies, the legal profession, and promotion organizations. This meeting involved an interesting mix of analysts with different views on state-of-the-art methods used in evaluating commodity advertising programs. The results of some of the

earlier studies about the impact of generic advertising were presented. Some very strong opinions were voiced that questioned the validity of the results from a few of the earlier studies. Some of the criticisms had merit--some were nitpicking. But it did provide an excellent reason for those of us interested in doing good research to establish a more formal procedure for interacting and checking each other's work.

Formation of NEC-63

Thus in the fall of 1985, we were able to get the Directors of the Experiment Stations to approve the formation of a committee to provide us with official status for using some Experiment Station money to cover travel costs to meetings. We were organized as a discussion committee rather than a technical research committee, because we did not want to be burdened with the administrative overhead associated with the latter. As a "discussion committee," approval was granted based on a two-page justification. The only administrative requirement was that minutes be kept of the business meetings and that those minutes be distributed to participating institutions.

Committee Activities

This is the 21st meeting of NEC-63. We have met two times each year on a very regular basis. At each meeting we have focused on a particular topic of interest to the group. Also at each meeting we have tried to bridge the interests of the academic analysts, the operators of promotion programs, and those who oversee these commodity promotion programs.

Over the past decade we have met in a variety of places. We have met in the Washington, D.C. area eight times, California four times (one time each in San Francisco, Oakland, San Diego, and Sacramento), four times in the Orlando, Florida area, two times in Toronto, Canada, and one time each in Denver, Chicago, and San Antonio. Next spring we will bridge international interests and meet in Cancun, Mexico.

At the start we attempted to publish some "white papers" to identify the correct questions and establish parameters for quality research. Those papers, although they were never published, provided a basis for discussion and got the committee started. Our first published material was a set of six leaflets that described commodity advertising and the way programs could be analyzed. This was published in 1988--after that, we published five books. The first represented the papers that were presented at a conference sponsored by the committee in Orlando, Florida in 1989. Most of these papers were technical and discussed either the theory behind generic advertising or presented research results. The quality was mixed. The book was published by Iowa State University Press in 1991.

The second book was published by the Texas A&M University Policy Center. It contained the papers presented at our meeting in Washington, D.C. in 1990. The focus was on the economics of export promotion.

The third book was published by the Farm Foundation. It contained the papers presented at our meeting in Arlington, Virginia in 1992. The focus and title were on commodity promotion policy in a global economy. The book contained articles by academics, government representatives, lawyers, and executives of promotion

organizations.

Our fourth book was published by the University of Guelph in Canada. It contained the papers of the conference held in Toronto in the spring of 1994. The organizers of that conference managed to broaden the participants to include several promotion organization representatives from Canada and academics from other universities in Canada and the United States.

We have just published the proceedings of the conference that NEC-63 held in Denver in June of 1995. The focus of that conference was on meat promotion. We have made copies of that book available at this meeting.

An Evaluation

The books represent the printed documentation of the productivity of this committee. But the research activities and results of the work of the many members of the committee represent the real value of the existence of NEC-63. Meeting twice each year has helped keep a focus on the area of research and has helped in networking individuals across universities, governmental agencies, and industry organizations.

As I review the publications in temporal sequence, I am impressed with the gradual but definite improvement in the quality of research and understanding of the theoretical basis for commodity advertising and promotion activities. I am even more impressed with the improvement in quality over time by reading sequentially the larger number of published research reports that have focused on the

economics of generic advertising. Most of these have been published by individuals who have been associated with NEC-63. I like to think that the existence of NEC-63 has had a positive influence.

In our research, we have gone from single equations that measured the net relationship between domestic advertising expenditure and retail sales to much more sophisticated multiple equation models. These latter more complex methods measure the effect of commodity advertising expenditures on prices and volume of sales at the farm level as well as at the retail level. They also give us the ability to look at the effect of commodity promotion programs on future production volumes, the cost of operating government support programs, and the value of government-funded export promotion programs.

The quality and scope of research directed toward a better understanding of the economics of commodity promotion programs funded by mandatory or voluntary checkoffs has progressed nicely over the past decade--the period that covers the existence of NEC-63. However, we have not yet covered all of the issues that face the government when deciding on policy, that face the operators of these programs, or that face the farmers who need to vote for their continuation.

Finally, the efforts and actions of NEC-63, have provided the motivation and leverage to attract special grant funds from Congress to support additional analysis and exchange activities. These funds provide the basis for the National Institute for Commodity Promotion Research and Evaluation, referred to as NICPRE.

Future Direction

NEC-63 can and should play a role in helping to shape the nature and direction of future research. It should continue to provide a forum for the exchange of professional viewpoints and be a way to network the various parties interested in the economics of commodity promotion programs.

It is my view that we need to continue to be very concerned about the quality of data. We could and should invest more time in making sure we understand the quality of the data that we have and try to continually improve it. We need to continue to be critical of our work and study more in-depth the implications of using different model specifications. The scope of our work should be expanded to cover the trade-offs between media advertising, promotion activities, product or process research, new product development, public relations, and other type program expenditures. In view of recent court decisions, we need to develop studies that will help clarify the issues concerning the constitutionality of commodity checkoff programs.

We should also be able to make the efforts of NEC-63 more international. Hopefully our meeting in Mexico this next spring will take us in that direction.

Concluding Remarks

In closing, I would like to recognize those who have been especially helpful in keeping this organization going. John Nichols, now NEC-63 chair, served ably as vice chair for most of the past

decade. He kept asking the right questions and was always available to help organize and make sure planned activities actually happened. Henry Kinnucan and Ron Ward have probably been the strongest contributors in terms of their scholarly contributions on theory and methods. Henry Kinnucan has certainly been a major contributor in keeping the organization going in a professional direction with his excellent work as secretary and treasurer. The minutes that he kept from the early years of NEC-63 provide superb documentation of our activities.

Walt Armbruster, an active member of the executive committee, has been a strong supporter ever since the beginning. Tom Cox, also a member of the executive committee, has been a good critic, especially in regards to the quality of the research effort of his colleagues. James Blaylock and Karen Ackerman of the USDA have been diligent in their support. Our Canadian representatives, Ellen Goddard and Archie MacDonald, have been strong supporters and have made major contributions to the ideas that have kept interest high.

Editors of the various publications of NEC-63 include Henry Kinnucan, John Nichols, Walt Armbruster, Stan Thompson, Hui-Shung Chang, Tom Wills, Karen Ackerman, John Lenz, Susan Hurst, Ellen Goddard, and Daphne Taylor. We thank them for putting the finishing touches on the work of the many conference presenters.

Several industry representatives have been especially helpful--John Huston, Barry Pfouts, Nancy Sprecher, and Wayne Watkinson just to mention a few.

Last but not least, we have had four administrative advisors that have been very supportive--our administrative advisors Wallace Dunham of Maine and Dan Rossi of New Jersey; our USDA advisors Paul Farris and Clark Burbee.

In summary, I want to thank and complement all of the many individuals from academia, government, and industry who have kept NEC-63 focused and productive. Compared to any standard one might set for what is basically an academic endeavor, we have been successful. Based on the record of the past, NEC-63 should be productive and effective for at least another 10 years.

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