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# Economic Evaluation of Commodity Promotion Programs in the Current Legal and Political Environment

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## **Evaluating Generic Commodity Promotion Programs: A USDA View**

*Kenneth Clayton*

### **Introduction**

I appreciate being given the opportunity to participate in this year's conference, again being sponsored by NEC-63 and the California Agricultural Issues Forum.

The concept of bringing the research community together with research and promotion program practitioners is a good one. In fact, meetings of this sort are essential to grounding evaluation research in the real world, while also better acquainting practitioners with both the potential and the limitations of quantitative program assessment.

I would like to share with you today USDA's perspective on the evaluation of research and promotion programs. I'll start with some general observations on evaluation, then review the 1996 Farm Bill mandate regarding evaluations, and finally conclude with a few thoughts on how USDA fits into all of this.

### **Why Do Evaluations?**

To begin, then, how does USDA view the issue of research and promotion program evaluations? Or, restated more succinctly, why do evaluations?

I have had the opportunity to visit with many of the CEOs and industry chairs of various national research and promotion boards in addition to marketing order committees on this subject. These conversations have occurred particularly during the past year or two, stimulated by the legal challenges that have been raised against generic promotion programs.

Thus, when the question has been raised as to why evaluations should be done for publicly-sanctioned generic promotion programs, my initial response has been that we need to provide something of an insurance policy in the event of future legal challenges.

While the need for such an insurance policy may be quite real, it suggests a second, more general reason as well...*accountability*. For starters, there is *public accountability*, given that public statutes provide the authority under which these programs operate. Congress has found it to be in the public interest that producers and others involved in the marketing of agricultural products be allowed to collectively promote their products. Thus, it should come as no surprise that justification for this public license is required from time to time.

Of even greater significance is *accountability to program "shareholders"*...that is, to the producers or others who fund these programs. The importance of this type of accountability is self-evident. The corrosive effect of challenges from within--shareholders beginning to question the effectiveness of a program--cannot be overstated.

And there is also a third reason for evaluation of generic promotion programs. Such evaluations can play an important role as a management or planning tool to assist program boards or committees in better meeting their business objectives. In this case, the purpose is in no way defensive. Rather, it involves a proactive attempt to better target scarce research and promotion dollars. Evaluation in this latter context makes sense, particularly as boards and committees seek to develop programs that address dramatically changing market conditions.

As we all know, traditional farm programs are being phased out. Production and marketing technologies are rapidly advancing. Consumer tastes and preferences are shifting. Information, including financial flow, moves around the world in a matter of seconds. And markets are truly becoming global.

The business climate our agricultural industries face is getting tougher and more competitive. Like others marketing their products, those involved in generic promotion must take advantage of every possible management tool available to them. In this sense, program evaluation can be helpful. It provides a means of assessing past successes and failures, thereby enabling more effective planning for the future.

Thus, in response to the question "why do evaluations?", I would suggest three reasons: first, as an insurance policy to help in the event of legal challenges;

second, to address the need for accountability to the public and program "shareholders;" and third, to create a management tool that can be used in allocating scarce resources among program alternatives.

### Observations On Evaluation

In considering the evaluation of generic promotion programs, several observations can be made from the practitioner or program point of view, as well as from the research perspective. On the program side, most of the national research and promotion programs have engaged in strategic planning in recent years. This means that thought is being given to program goals and to the kinds of activities that will achieve those goals.

In fact, having engaged in strategic planning, generic promotion programs have taken a critical first step toward evaluation. Consider that in developing a strategic plan, two of the elements typically addressed include: 1) *measurable* program expectations or goals identified, and 2) *data* assembled to assess progress toward strategic goals. The fact that strategic planning has been undertaken evidences the interest of promotion boards and committees in setting goals and measuring progress. In a general sense, it is not a major leap to gathering data and assessing effectiveness.

Experience to date suggests several considerations for the boards or committees undertaking generic promotion. Referring back to my reasons for performing evaluations, I would note the following:

- . . . if an insurance policy is sought, evaluation of the overall effects of a program may be needed;
- . . . if accountability is being addressed, overall effectiveness may be paramount, but there may also be interest in the effectiveness of individual activities; and
- . . . if evaluation is intended to support strategic management, attention may need to be focused on individual activities, while simultaneously keeping an eye on overall effectiveness.

Those of us at USDA have a somewhat unique perspective on evaluation. We have responsibility for conducting certain evaluations which gives us a "hands-on" experience to draw upon. Additionally, with our oversight responsibility for all federally-sanctioned generic promotion programs, we have had the opportunity to share in the experiences of the various program boards and committees. And, we have worked professionally with the research community in its development and application of methods for estimating the impacts of generic promotion efforts.

As I believe everyone is aware, USDA is responsible for annual evaluations of the effectiveness of the national dairy and fluid milk processors' generic promotion programs. Our annual analysis is the result of a collaborative effort between USDA's Agricultural Marketing Service and Economic Research Service, along with several university researchers.

Having performed these evaluations over the past several years, we have learned several things: first, results and methodology must be credible, thus peer review is essential; second, evaluations can be complicated when exogenous factors (e.g., farm programs) come into play; third, complicated or not, evaluations will be criticized if returns at the "shareholder" level are not estimated; and fourth, results must be presented in nontechnical terms, since most of those interested are not trained in econometrics.

As something of a parenthetical note, those boards and committees that work with USDA's Foreign Agricultural Service in its cooperator or foreign market development programs know that assessing effectiveness has become a watchword for those programs as well. I raise this point because of the growing interest and need for generic promotion programs to become involved in foreign market development.

Let me turn now to some observations on the generic promotion programs themselves, as they relate to evaluation. For the larger programs -- those which I define as having greater numbers of assessment dollars, a larger array of program activities, and a national media presence -- evaluation of overall program effectiveness is a relatively straightforward proposition. For the most part, data are readily available, especially public data sets.

At the same time, at least some of these programs operate in a market that is characterized by government intervention. While farm programs are slated to be phased down over the next few years, the data available for evaluations may include the effects of such intervention. The effects of farm programs can certainly be taken into account, but they make the analysis more complex.

For the smaller programs, evaluation may be a somewhat more daunting proposition. Still doable, but in a relative sense, more challenging. A number of factors come into play for the smaller programs. Less money may be available to support evaluation, including data collection. Less data may be available, particularly publicly-collected data. And because funding is limited, national-level promotion may not be possible. The bottom line would seem to be that for the smaller programs, greater creativity may be required in defining evaluations, and in developing appropriate methodologies and applicable data sets for assessing program effectiveness.

To illustrate this point, consider a smaller generic promotion program that chooses to target its efforts to several major markets, employing local print media and point-of-purchase promotion. It may be appropriate to evaluate this program's effectiveness by examining its impact on sales in those major markets targeted. But to do so will require methodology and data appropriate to such an analysis. It may be necessary, for example, to gain access to before and after supermarket sales data in those major markets.

One pitfall programs of all sizes must avoid when considering the effectiveness of their efforts is to lose sight of what it is being measured. On more than one occasion I have seen boards swayed by their advertising firm to accept consumer recall data as an appropriate measure of effectiveness. In a limited sense they may be right, but measuring the impact in terms of product sales and producer revenue would certainly better address shareholder and public accountability.

One final observation for program practitioners is that if they want to maximize the benefits of evaluation, it is important to involve those who will conduct an evaluation as early in the program as possible. One consideration is data. Data are arguably the single greatest determinant of a successful evaluation. Development and maintenance of data call for conscious effort, including

preliminary planning. Similarly, if evaluation is to be effectively used as a management tool, it needs to be built into program development.

Shifting from program practitioners to the research community, several observations can be made. Clearly, we have progressed in the development and application of methodology for promotion evaluation. The body of economic literature on the evaluation of generic promotion is growing. Spurred on by NEC-63, the National Institute for Commodity Promotion and Research Evaluation at Cornell University, and the growing number of generic commodity promotion programs, we see increased numbers of research bulletins and journal articles. While progress has been made, work remains to be done to further refine methodology. This relates not only to overall program effectiveness, but also to looking separately at research versus promotion, and within promotion at issues like print versus broadcast media.

It is also critically important that those who conduct program evaluations work with the boards that hired them to ensure results are understood. In part, this is a matter of being sure that technical, "economic-speak" does not get in the way of interpreting results. But it also means being honest about the limits of the evaluation. Methodological or data limits should be identified and their implications explained.

It also would be mutually beneficial for researchers to become involved with program practitioners on a broader basis than just the evaluation study itself. Both sides could benefit by early discussion and planning, data needs could be identified and addressed, and greater application of evaluation results to program management decision-making could be achieved.

### **Farm Bill Mandate**

Turning now to the Farm Bill mandate, Section 501(c) of the 1996 Farm Bill entitled "Independent Evaluation of Promotion Program Effectiveness" reads as follows:

"Except as otherwise provided by law, each commodity board established under the supervision and oversight of the Secretary of Agriculture pursuant to a commodity promotion law shall, not less often than every



five years, authorize and fund, from funds otherwise available to the board, an independent evaluation of the effectiveness of the generic commodity promotion programs and other programs conducted by the board pursuant to a commodity promotion law. The board shall submit to the Secretary, and make available to the public, the results of each periodic independent evaluation conducted under this subsection."

There are several points embodied in this mandate that should be noted: first, an "independent evaluation" is required; second, an evaluation must be performed at least once every five years; third, the evaluation should cover generic promotion, but also "other programs;" and fourth, the responsibility for authorizing and funding evaluations is directed to the boards. Thus, the Farm Bill mandate addresses the timing and scope of evaluations. And it places the burden for initiating evaluations on the boards.

This mandate is also significant in what it does not say. Specifically, it leaves the responsibility for defining precisely what an evaluation entails up to the boards. It also leaves choice of methodology up to the boards. Finally, it leaves open to the boards the possibility of using the evaluation process as an on-going management tool. The *temptation* for the boards may be to strictly meet the mandate with an evaluation performed once every five years. However, the *challenge* for the boards is to determine whether such evaluations can be made useful to the strategic planning and management of their programs.

### USDA's Role

Congress has thus made clear that evaluations are the responsibility of the boards and committees that operate generic research and promotion programs. USDA has not been given a specific role in defining the terms of program evaluations. However, USDA does continue to have responsibility for general public oversight of these programs and ultimately, we do hold the authority to approve or disapprove their budgets.

As a general statement based on our experience, we would expect that evaluations: 1) will be credible, based on peer review; 2) will measure effects at the shareholder level; and 3) will be presented in nontechnical terms. While USDA

must ensure that the boards and committees meet their statutory mandate for evaluations, we are neither authorized nor do we intend to dictate terms. Rather, we envision our role as one of facilitating the boards and committees in their efforts at evaluation.

I believe we can facilitate in several ways. First, we can serve as a liaison between the boards and the research community. This may not be necessary in all cases, but may be helpful to some. In this role, we could identify researchers who might possibly be of assistance to the boards. We could also assist in reviewing or finding reviewers for evaluating proposals received by the boards. It is also possible that USDA could be helpful in identifying publicly available data sets for use in evaluation. And, when an evaluation study has been completed, we could assist in assuring that proper peer review is accomplished.

Finally, I believe all those interested in promotion evaluation could benefit from a sharing of studies as they are completed. In fact, a repository of studies to which both researchers and program practitioners could turn to might prove beneficial. USDA working with the boards and the research community could facilitate such sharing.

### **Conclusion**

In conclusion, let me sum up very simply. USDA supports industry self-help programs, including both national research and promotion programs, and marketing orders.

USDA sees value in evaluating the effectiveness of these programs. Evaluations should help in defending these programs when their effectiveness is challenged. Moreover, evaluation can be an effective tool in planning and managing these programs. We look forward to working with both program practitioners and the research community in meeting the evaluation challenge.