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

Proceedings from the NEC-63/California Agricultural Issues Forum Conference
Monterey, California
October 7-8, 1996

Edited by:
Jennifer L. Ferrero
Cynda Clary

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 (NICPRE)

Panel Reaction and Discussion

Henry W. Kinnucan

A panel of industry, advertising agency, legal, and academic representatives discussed the new farm bill provision that requires promotion programs to be evaluated at least once every five years. Mary Comfort from the California Artichoke Board raised several concerns about evaluation. One was complexity and associated cost. She also brought up issues like the amount of variables that affect consumption, the fact that small programs like artichokes ($0.5 million annual budget) lack the resources to do evaluation, and the related problem of data. To track the effect of promotions, it would be necessary to gain access to packers' books, something that is not likely to happen.

Similar views were expressed by Mike Simpson of the Pork Producers' Council. Economic evaluations are overly complex; producers want simpler analyses that can be understood and that are relatively inexpensive. Mandatory evaluation imposes a regulatory burden that will raise costs and promote inefficiency. Producers prefer to invest in promotion and not see their scarce checkoff dollars diverted to evaluation.

From an ad agency perspective, Tom Drese suggested that evaluation could be improved if it focused on "measuring creativity" i.e., the message may be more important than the money spent. Econometric models have to become more sophisticated in their specification of advertising. A single variable for ad expenditures is too crude a measure of advertising impact. It would also be helpful if the evaluations could address management issues, such as the effectiveness of alternative media, target audiences, creative appeals, and the timing of commercials.

The need to look at management issues was echoed by Ron Ward. In addition, researchers need to pay attention to other aspects of the promotion program, including research and nutrition education. As with promotion evaluation, this will require close cooperation between boards and researchers.

Bruce Obbink of the California Table Grape Commission, panel chair, emphasized communication. Economists need to be careful to avoid jargon (e.g., terms like heteroskedasticity) and to present results in nontechnical layman's language. In contrast to the other industry panelists, Obbink stated that rigorous quantitative analysis of program performance is essential.

Audience reaction commenced with a comment from a Prune Board member who stated that the purpose of promotion was to increase sales and raise price. If nutrition education does not pay, it should not be supported. Someone else in the audience countered that nutrition education may have benefits that go beyond income (e.g., improved human nutrition) and that this should be included in the benefit-cost analysis. Yet another view was that even if nutrition education does not pay, it may be a worthwhile effort because it may convince government that commodity promotion programs are worthwhile.

Negative information (e.g., Dateline TV show on foodborne illnesses) is one area where promotion boards can be particularly effective. For example, the suggestion was made that if boards had invested more money in research on cyclosporon in strawberries, the problem could have been avoided.

The issue of imperfectly competitive markets was raised. Producers often sell into markets that are oligopolistic/monopolistic. Does the litigation address this issue? Does market concentration change the fundamentals about why commodity promotion programs exist?