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Research on Price Forecasting and Marketing Strategies: Improving Our Relevance - Comment

by

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Research on Price Forecasting and Marketing Strategies:
Improving Our Relevance - Comment

Darrel Good*

The major premise of the Brorsen and Irwin paper that agricultural economists' research on price forecasting and marketing strategies is of limited relevance to real-world applications is probably correct. The reason being that much of the research asks the wrong questions, makes the wrong assumptions, or both. On the other hand, surveys that show information provided by the Cooperative Extension Service is not useful to producers for marketing decisions is probably misleading. The mass media sources of information cited as most often used by producers draw significantly from information and analysis provided by the public sector. The surveys tend to identify retailers of market information and do not identify the wholesalers.

That distinction aside, the issue of improved social welfare is extremely important. The "noisy" rational expectations model is in fact a proper framework for justifying public research on price forecasting and marketing strategies. The point that needs to be made is that the intellectual capital concentrated in the public sector (USDA and Land Grant Universities) gives that sector a comparative advantage in conducting relevant research. That sector has the expertise (Ph.D. economists), the data, and the resources necessary for conducting price forecasting and marketing strategies research.

The discussion of critical issues that must be addressed in order to produce relevant empirical evidence is well directed but has some shortcomings. First, it would be useful for the authors to develop a working definition of marketing strategies. The reader is given the impression that market strategy is equivalent to managing price risk. Is that the intended or correct definition? Second, the discussion would benefit from a separate discussion of price forecasting research and marketing strategies research. While the two are obviously related, there are significant differences in methodology and application. This is evidenced in the discussion of changing market structure. The changing structure clearly impacts producer marketing strategies but probably does not alter price making fundamentals.

The authors make a convincing argument that "applied" research has not been well rewarded by the academic community. Some change, however, will likely be imposed on the system as the public becomes more critical of funding for high education and requires the universities to fulfill their Land Grant commitments. Providing information to the public that increases social welfare will eventually be rewarded.

The possible interaction among agricultural economists and commercial market advisory services is fertile ground. The comparative advantage of the two entities needs to be kept in perspective. The advisory firms have an advantage and an incentive to collect, package and disseminate information. They do not have an advantage in price analysis and forecasting. The services do not employ

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Ph.D. economists and typically rely heavily on technical analysis in analyzing prices and developing marketing strategies.

Agricultural economists in the public sector have an advantage in price analysis, price forecasting, and development of risk management strategies. To conclude that extension (public sector?) should move away from predicting price levels ignores that comparative advantage. Specifically, basing outlook programs on the price structure in the futures market ignores the dynamic (and predictable) qualities of commodity markets.

The relationship between market advisor and agricultural economist needs to be a two way street. The advisory services could be an excellent source of information to develop "market driven" research for agricultural economists. In turn, the services are potential consumers of the research.

The authors correctly conclude that our research portfolio in the areas of price forecasting and marketing strategies is out of balance. Accepting the challenges presented in the paper provide an opportunity for the profession to be more relevant and to play a major role in commodity price analysis.

Discussion of "Research on Price Forecasting and Marketing Strategies: Improving our Relevance"¹

The question of relevance is an extremely important topic yet a difficult one because it requires self examination. For that reason, I commend the authors for bringing this issue to light. I also commend them for discussing the issue in a way that seems clearly aimed at making positive progress and not simply criticizing the status quo. In reviewing the paper, three key issues stood out to me: (1) a gap between academic research and applied economics at the agribusiness and farm levels, (2) the incentive structure for academic professionals, and (3) how the NCR-134 conference could be used as a platform for change.

The "Gap"

The gap between academic research and applied economics at the agribusiness and farm levels that I perceive to exist today is the distance between the exploration of an idea thought to be relevant and the actual application of that idea. If a practical application was the goal of a researcher's effort but the idea was not applied following the research, then one of two conclusions could be drawn: (1) the research was not relevant or (2) the idea was not effectively communicated to potential users. Even frontier breaking research that is only targeted to the academic community would be deemed relevant if it contributed to research that could eventually be directly applied. But the litmus test still has to be whether applied research using that ground breaking work, as well as research intended for direct application, eventually gets used.

I tend to believe that, often times, the problem lies more with the communication of the idea as opposed to its relevance. In this case, the gap between research and application may be more appropriately termed a communication barrier. I believe there are many cases where research can be applied to real-world problems resulting in an increase in net social welfare. However, differences between researchers and potential users of that research contribute to a communication barrier: for example, differences in knowledge and training, differences in available information and data, and differences in resources including time. These differences have to be bridged for communication of ideas to be successful.

The varying needs within the population of potential users also contributes to the communication barrier because what is meaningful to one user may not be to another. Do farmers need and want the same information as agribusiness people? For that matter, do small and large farmers want the same information? The authors refer to differing models of expectations which may depict their users. I do not know if one model of expectations can truly be descriptive of a wide ranging clientele.

¹ Discussion by Rob Johnson, Project Manager, Continental Grain Company-Cattle Division, Chicago, Illinois.

These differences suggest that targeting specific research results to specific users may be helpful. Just like any other industry, academic researchers must be more customer oriented if they are going to measure their success through the direct usage of their research. To accomplish that goal, the needs of customers or a subset of customers must be correctly identified and the method of communicating results must be effective. Again, just like in any business, if product design or production or distribution break down, the result is the same: the customer does not get what he wants and the product is essentially worthless. The utility derived by the consumer from the product can only be as great as the weakest link in the chain. Likewise, if relevant ideas are not being effectively communicated, then the idea may never be used.

This line of thought brings up a question: Is the academic community responsible for applied economists using their research? Private businesses are totally responsible for users (consumers) accepting and using their products, but private business may not be an appropriate analogy. I am not going to attempt to answer this question but will add another question: What does the public expect in return for the funding given to land grant research in the areas of price forecasting and risk management?

Incentives

The authors suggest that one reason relevant research may not reach user's hands is the academic incentive structure. I cannot think of a group that would understand the ramifications of incentives better than economists. Because the system rewards research in peer reviewed (and mostly peer read) journals, then what is the incentive for seeing that the message gets to the user? Academic researchers have reacted exactly as one would expect. Even if researchers knew exactly what the public wanted, the incentive structure may prevent them from being able to provide it.

The problem is that measuring an increase in net social welfare due to the application of academic research is not as easy as counting journal articles. Consequently, the flaws of the current incentive system may be much more readily apparent than the solutions.

The NCR-134 Conference

I enthusiastically agree with the authors that the NCR-134 Conference could play a useful role in the process of change. To accomplish that goal, I suggest the following steps:

- 1) Explicitly state why the conference (or a segment of the conference) is being held and what group(s) is(are) being targeted.
- 2) Plan the schedule, meeting place, length, and topics of discussion according to the targeted audience.
- 3) Select a method of communication that is most likely to reach the audience keeping in mind the level of education and experience of the audience.

- 4) Decide upon a method of measuring the success of the conference through some type of follow-up with the audience.

Much of the research presented at this conference relates to risk management at the farm level either via price forecasting or hedging strategies. If the farming community is the targeted audience, then should the conference be in Chicago at the height of an extremely busy season for farmers? If the targeted audience is the extension community in order to have them be the messenger to farmers, what implications does that have for time, location, and method of communication? If the targeted audience is the academic community, what implications does that have?

As an example, if part of the targeted audience is agribusiness people, I recommend scrapping the format of "presenting papers" in 30-45 minute clips. I do not think it is an effective way to communicate a potentially relevant idea to an applied agribusiness economist. As a result, few agribusiness people are attending the conference. In 1983, there were 43 non-academic participants listed in the proceedings, but in 1993 there were only 5. If agribusiness people are being targeted as a part of the audience, something has obviously gone wrong.

In order to attract agribusiness economists, the ideas put forth should be well thought out in terms of actual implementation, and the presentation should be reflective of that goal. It should also be kept in mind that if an idea is being presented as having a useful implication, the results or findings should not be preliminary. Problem solving users are primarily interested in the results and how they can implement the research if the results are promising. They are not usually interested in further research.

Conclusion

I admire the authors for bringing attention to a thorny yet very important issue. I agree with them thoroughly when they say "...if our research is to increase social welfare, then it needs to be used." As opposed to irrelevant research, I contend that much of the research being done is relevant but is rarely communicated in the most effective manner. Whether or not a better job of communicating or "marketing" can be accomplished within the current incentive framework is a more difficult question. NCR-134 could be a good platform to experiment with a different style of conference and method of communication, but the first step is focusing on a target audience. I am confident that the wealth of knowledge and experience in this profession will ultimately result in significant improvements being made to this conference.