



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

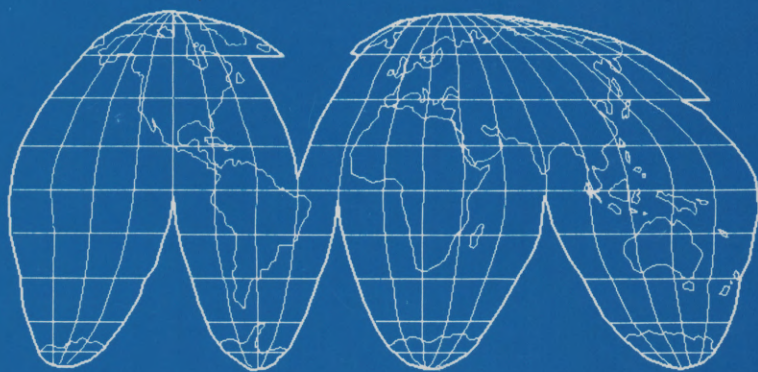
AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Commodity Promotion Policy

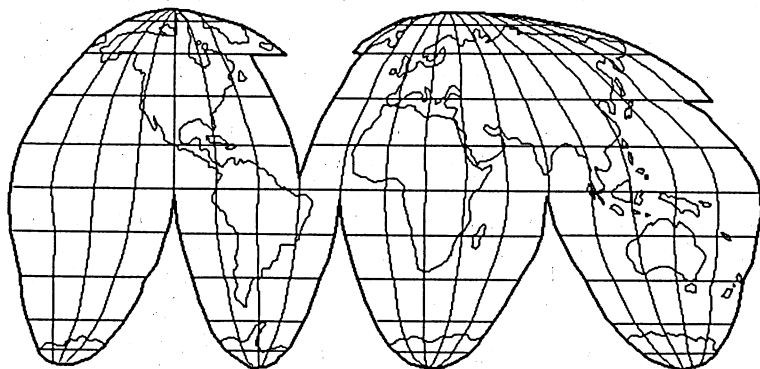


in a
**Global
Economy**

Proceedings of a Symposium
October 22-23, 1992

Arlington, Virginia

Commodity Promotion Policy



in a **Global Economy**

EDITED BY

Walter J. Armbruster and John E. Lenz

SPONSORED BY

*NEC-63 Research Committee
On Commodity Promotion
Agricultural Marketing Service, USDA
Economic Research Service, USDA
Foreign Agricultural Service, USDA
Farm Foundation*

PUBLISHED BY

*Farm Foundation
1211 West 22nd Street
Oak Brook, IL 60521-2197
1993*

***EVOLVING CHALLENGES
FOR COMMODITY PROMOTION PROGRAMS***

COMMODITY PROMOTION PROGRAMS: INSTITUTIONAL CHANGE IN A GLOBAL MARKET

John P. Nichols
Texas A&M University

How should we think about commodity promotion programs? What purpose do they serve? On what basis can we evaluate their contribution? What future do they have? These questions cannot be answered adequately without taking a strategic view of agriculture, agricultural policy and consumer markets.

The basic premise of this paper is that commodity promotion programs, as operated through national checkoff legislation, represent a significant institutional response to changing market forces and declining enthusiasm for direct economic subsidies to farmers. The growth in commodity checkoff programs should be seen in a positive light as a legitimate policy response crucial to the producers' long-run involvement in key decisions that will shape their future.

All institutions change and evolve. Kinnucan refers to institutional innovation in the context of "new methods, organizations, or techniques that are adopted by a country to enhance market efficiency or to increase demand for selected commodities" (Kinnucan, p. 172). Commodity checkoff programs certainly fit this description.

Public policy toward agriculture and rural development stretches back to the 1860s with the Homestead Act, establishment of the U.S. Department of Agriculture (USDA), and the beginning of the land grant college system. Government involvement in food quality regulation, grading and price reporting early in this century represents increasing institutional support of or involvement in agriculture. Intervention through agricultural price and income supports beginning in the 1930s illustrates an even greater level of institutional activism. More recently we have witnessed shifting ideas regarding the role of governments in relation to markets. New institutional models are needed to provide opportunities for farmers and ranchers to adapt and prosper in this emerging political, economic and technological environment.

What is Commodity Promotion?

Commodity promotion programs are really more than the simple word "promotion" implies. Promotion, in its traditional sense, refers to marketing activities aimed at communicating the product's benefits and to persuade target customers to buy (Kotler). Primary activities include media advertising, publicity, sales promotion and related merchandising tactics. Promotion efforts are only successful in the context of many other marketing variables, a number of which can be influenced by checkoff organizations representing generic commodity interests. It is because of this that commodity checkoff organizations are actively involved in other areas, most notably research and development on new products, quality improvement, and industry communications.

The evidence suggests that, on average, checkoff programs spend the greatest share of their resources on promotion activities (Lenz). This will certainly continue, particularly for those with the largest budgets which can effectively engage markets on a national scale. The effectiveness of these programs is often questioned. Through the maturing of internal and external review and evaluation processes, commodity checkoff boards are coming to realize that they need to be much more involved in the full range of market coordination and management issues TP5.3and techniques. The emphasis in the beef industry on value based marketing, new low fat products, and vertical industry communication is a good example.

Cotton Incorporated provides another example. Through extensive product development research and technical service, it has led the cotton industry back to a dominant position in the fiber market. Advertising and promotion of the cotton label was only a part of the solution. The product and processing system needed changing as well. Commodity checkoff programs have evolved into more complex marketing organizations capable of responding in a variety of ways.

The following discussion of the forces influencing this evolution in commodity promotion programs and the outline of the criteria or expectations for an "ideal" commodity checkoff/promotion organization form the basis for judging how well such groups can serve the interests of both agricultural producers and policymakers.

Environment for Change

Several important trends have combined to foster the growth and development of commodity checkoff programs. While not an exhaustive list, several of the key points include: 1) the trend toward economic deregulation, 2) the impending fiscal crisis at the federal level, 3) globalization of food product and commodity markets, 4) increasingly complex technology in food production and processing, and 5) the changing structure of agribusiness marketing channels.

Economic Deregulation

One common theme in recent years is the effort to reduce economic regulation at the federal level. This has been seen in agricultural policy as farmers have been given more planting flexibility for program commodities and loan rates have been lowered. Producers are being encouraged to respond more directly to market incentives and to use a broader array of marketing tools in their business planning. The increasing market risk resulting from this should encourage producers to look to alternative institutional arrangements to assist them in addressing marketing issues. Commodity checkoff programs provide a mechanism for collective response.

It should be noted that this trend toward economic deregulation is developing at the same time that other forms of regulation are increasing. Most evident are those regulations designed to reduce environmental impact of production agriculture and to improve food safety for consumers. This shifting balance of regulatory intervention will force producers to adapt their marketing organizations in a way that provides the greatest assistance in responding to market needs.

Deficits and the Federal Debt

It is clear that federal fiscal problems will continue to limit the ability of Congress and the administration to provide direct price and income support to agriculture. In recent years such payments have remained in the \$10 to \$12 billion range and account for a declining share of USDA's budget (15 percent in the most recent period). The real growth is in food stamps, child nutrition and the WIC program which, combined, account for nearly 65 percent of USDA's budget. Fiscal pressure and budget limits imposed by Congress simply will not allow room for major increases in direct price supports. In fact, the trend will be in the opposite direction.

The encouragement of commodity checkoff/promotion organizations provides one logical way for policymakers to offer some assistance. These are viewed as self-help programs that permit farmers to engage the market directly through efforts to shift demand, improve products and compete in export markets. In the mind of a legislator, the required enabling legislation may be a small price to pay to get the federal government off the hook of supporting increased direct price and income subsidies in the face of a real fiscal crisis.

Globalization of Markets

Economic and market integration on a global scale continues. This is not a new arena for agriculture, but the stakes are being raised substantially as governments intervene to protect their domestic in-

terests and subsidize exports. Commodity promotion organizations are called on to find and exploit export market opportunities. Government resources have become available to promote exports. In 1991 more than \$200 million was provided for export market development. These resources are being channeled, in significant part, through the existing commodity promotion organizations, recognizing that they have programs in place and an incentive to effectively utilize the funds. Commodity checkoff/promotion organizations provide a useful alternative to expanding direct export marketing staff within government agencies such as the Foreign Agricultural Service (FAS). It takes a truly collective industry group to legitimize and coordinate efforts on a global scale.

Also, as multinational trade negotiations such as the General Agreement on Tariffs and Trade (GATT) and regional trade negotiations such as the North American Free Trade Agreement (NAFTA) succeed in reducing trade barriers, markets will be even more contested. Commodity checkoff/promotion programs can lead the effort in representing producers' interests through differentiating products, competing for market share and coordinating industry resources.

Complexity of Product Mix

The demand for convenience, shelf life, and uniformity in food products has altered the marketing picture radically in recent years. Farmers supply raw materials into an increasingly industrialized processing and distribution system. Technical requirements for agricultural commodities are becoming more complex. Opportunities for developing and expanding markets often depend on understanding and responding to these requirements. Commodity checkoff/promotion organizations can play a key role in opening up the vertical communication needed to be a first-mover in this complex market environment. Research on product characteristics, technical requirements and market needs is an important part of overall marketing strategy. Cotton Incorporated has provided an excellent example of this strategy over the past two decades.

Market Structure and Power

A closely related set of factors is found in the dynamics of structural change in the food and fiber industries. Food processors and retailers continue to evolve in terms of their methods of vertical coordination and horizontal concentration. Many institutional arrangements have been tried which were designed to provide greater market power for farmers in the face of increasing concentration at other levels of the agribusiness sector. Cooperatives, marketing orders, joint ventures and increased market information are examples. Commodity checkoff/promotion organizations represent another institutional response to the problem of asymmetrical market power.

Greater coordination is the key to successfully addressing marketing opportunities or challenges. Commodity checkoff programs, if proactive in their approach, can provide a mechanism for collectively addressing marketing issues, formulating a consensus that cuts across levels of the marketing channel, and communicating effectively to all those who are needed to effect change. Observing the efforts across many commodity checkoff groups, one can see this happening. The process of reaching consensus is not always pretty, but collective action is essential to address real marketing problems. Producers are pulled into the process, whether they want to be or not, because it is their money that is on the line.

An "Ideal" Commodity Checkoff/Promotion Program

If commodity promotion programs represent an institutional response to these issues and opportunities, what form should this evolving structure take? What should we expect of a well-conceived, well-managed organization? Several criteria or benchmarks seem appropriate. These follow from the problems that need to be addressed and from observing the recent history of commodity promotion groups.

- *Broad industry coverage*: Include regional or preferably national markets.
- *Clear strategic vision*: Consider customer or user orientation and responsiveness.
- *Balance of marketing strategies*: Employ as many of the tools of marketing management as possible, including product development and differentiation, technical service, promotion and communications.
- *Willingness to invest in the long run*: Provide support for research and market building.
- *Breadth of evaluation*: Examine programs and projects beyond consumer response to media promotion.
- *Contribution to vertical coordination*: Effectively encourage discussion and consensus-building across all levels of the marketing channel.
- *Strength of communication*: Identify primary communication messages and effectively deliver them to producers and first-handlers.

Successfully achieving all these criteria is certainly a tall order. However, this is clearly the direction in which commodity checkoff/promotion organizations need to move. A broad coverage is needed to effectively represent the industry and to minimize the free-rider problem. Through a strong focus on market needs, the organization can provide balance among its marketing strategies. The organization must be more than a purchaser of consumer or trade advertising.

In a world driven by financial, bottom-line imperatives, it is often difficult to focus on long-term objectives. However, a successful commodity checkoff program should invest some resources toward that end. Likewise, attention needs to be given to evaluating programs in a balanced way. This requires planning and an ability to assess results in both a quantitative and qualitative manner against preset goals and objectives. Effectiveness of a checkoff organization should include a judgment regarding industry progressiveness and responsiveness to changing market forces.

The challenge to the academic research community is to develop models and methods that explicitly incorporate such measures of performance. Of particular interest is the conceptual development and estimation of models that can identify the relationship between the activities of checkoff organizations and changes in system efficiency. Can checkoff programs improve market efficiency through improving vertical coordination, increasing responsiveness to changing consumer demand, and increasing technical innovation in marketing processes? Qualitative judgments can be made regarding these measures of performance, but integration into existing quantitative efforts to measure program effectiveness is needed.

Commodity checkoff/promotion programs exist because of specific legislative action. This provides the basis for assessing the organization's contribution, not only to producer well-being, but also in terms of contributions to broader public policy objectives. We should expect continued scrutiny of commodity promotion programs by those who are charged with oversight responsibility. However, we also need to broaden our idea of what good commodity checkoff/promotion organizations can do to improve producers' marketing programs.

Conclusions

Commodity checkoff/promotion organizations should be considered as one of several public policy options to improve producer well-being. Direct price and income supports may be reserved for very limited application in the future. Crop insurance provides useful risk management options for farmers. Marketing cooperatives and market orders provide additional help. Organizations that involve producers directly in a broad array of marketing management decisions represent a different refinement in institutional evolution.

Commodity checkoff programs have contributed through their traditional role of influencing demand through advertising and other promotion activities. A broader role is emerging, however, as a vehicle for improving vertical coordination and communication. Checkoff programs have the potential for producing a new culture of producer involvement in major marketing decisions. Products and services will evolve to meet emerging consumer and industrial needs.

The question is whether farmers will be involved in influencing and benefiting from these changes.

REFERENCES

- Kinnucan, Henry W. "Expanding Foreign Demand Through Institutional Innovation: The Case of a Dairy Promotion Program in Korea." *Economic Effects of Generic Promotion Programs for Agricultural Exports*, ed. J.P. Nichols, H.W. Kinnucan, and K.Z. Ackerman, pp. 172-187. College Station TX: Texas A&M University Dept. of Agr. Econ., Aug. 1991.
- Kotler, Philip. *Marketing Management: Analysis, Planning, Implementation, and Control*, 6th ed. Englewood Cliffs NJ: Prentice-Hall, 1988.
- Lenz, J.E., et al. *U.S. Commodity Promotion Organizations: Objectives, Activities, and Evaluation Methods*. A.E. Res. 91-4. Ithaca NY: Cornell University Dept. of Agr. Econ., May, 1991.