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ECONOMIC ANALYSIS OF MEAT PROMOTION

PROCEEDINGS FROM THE NEC-63 CONFERENCE

Adam's Mark Hotel
Denver, Colorado

June 2 - 3, 1995

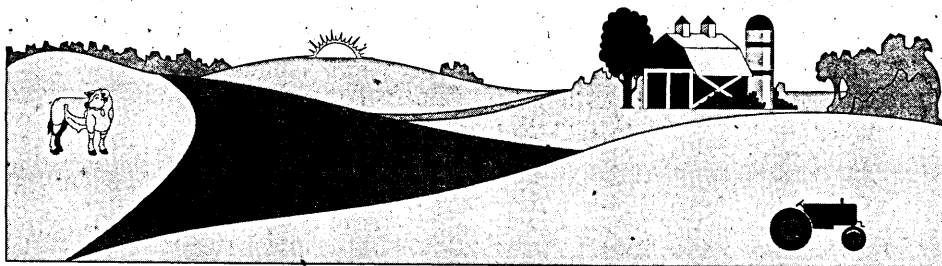
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THE POTENTIAL FOR EXPORT MARKET GROWTH: ARE TOO MANY COOKS SPOILING THE BROTH?

A. Desmond O'Rourke

The International Marketing Program for Agricultural Commodities and Trade (IMPACT) Center, which I head, will complete its tenth year at the end of June 1995. We were set up to harness science and technology in support of agricultural exporting. Our major thrusts are market opportunity studies, technical problem solving, and new product development.

In this paper, I will tell you a little bit of our guiding philosophy, show how we interact with our agricultural clientele, and describe some of the work we have done in meat marketing.

If we have learned one thing in ten years, it is to be careful about how we use the word "promote." In the original blueprint for the IMPACT Center, we talked about our role in promoting (small "p") agricultural exports. However, we were quickly made aware that we had stepped on a number of people's turf (toes). The Commodity Commissions said, "That's what we do, promotion." The federal and state marketing agencies said, "We're in charge of trade promotion." The advertising agencies said, "We're the promotion specialists." So now we talk about "enhancing," "expanding" or "supporting" agricultural exports and exporters, never about "promoting" exports.

Customer-Oriented Marketing

That anecdote illustrates a broader problem in U.S. agricultural marketing. As a group, we do little serious analysis of the structure of our commercial system and how that affects the success of marketing and promotion efforts. "Where we are" is a long way from "where we need to be" if we want to be effective in international markets.

In the first half of the twentieth century, U.S. thinkers and practitioners led the world in customer-oriented business development. Even in agriculture, thinkers like Brunk and Darrah emphasized that production should respond to consumer needs.

Perhaps it was the disruption of World War II or the hubris resulting from U.S. postwar technical superiority or, in agriculture, the stranglehold of government programs. In any case, U.S. business and U.S. agriculture lost their way in the 1950s and 1960s.

In 1967, Philip Kotler published his influential textbook, "Marketing Management Analysis, Planning and Control," in which he characterized the old marketing concept as one that was product focused and used selling and promotion to generate profits through increasing sales volume. In the new concept, the focus should be on generating profits through satisfying the customer using integrated marketing.

Among the benefits of this "new" approach, Kotler cited: (1) Management realizes that customer needs are more basic than particular products. Customers require transportation not carriages, communications not telephones, emotional reassurance not gourmet ice-cream. (2) Attention to customer needs helps management spot new product opportunities more quickly. (3) Merchandising becomes more effective because the buyer's multiple needs for service, convenience,

aesthetics, or symbolic values are recognized and met. (4) Management brings its own interests into greater harmony with society's interests.

Kotler placed heavy emphasis on the need for integrated marketing with a firm if customer satisfaction was to be the dominant focus. This would require considerable reorganization in firm decision-making. One logic would have to replace multiple logics.

For example, within the individual firm if left uncontrolled, R & D focuses on exploiting existing technology, engineering focuses on technical efficiency, marketing seeks to maximize sales volume, and so on. It is easy to see where one or more of these departments may be working at cross purposes to the overall goal of customer satisfaction.

Twin Problems for Agriculture

In agriculture, the problem of multiple logics is compounded. You have all the intrafirm conflicts mentioned by Kotler. In addition, the institutions that form part of agriculture's marketing team have incompatible goals. Farmers want high yields and high prices. Packers or processors maximize revenue by increasing throughput. Brokers want fee income. Universities are still addicted to the publish or perish syndrome. (IMPACT Center faculty must meet the usual college and university criteria for tenure and promotion and work in applied projects with exporters.) Agricultural research agencies respond to their producer boards. Promotional agencies want to maximize favorable impressions, not necessarily sales or profits. Government agencies want to satisfy political constituents. The customer, alas, is often forgotten. Integrated marketing, as Kotler envisaged it, is usually unattainable.

Other countries have been more aggressive in attempting to simplify the logic of agricultural marketing. For example, despite NAFTA, the Canadians have clung tenaciously to their Wheat Board. Despite privatization of most of agriculture, New Zealand has retained the export monopoly of the New Apple and Pear Marketing Board. In the U.S., the poultry industry has retained both generic promotion and a highly integrated structure. I suspect the beef and pork sectors are moving rapidly towards greater integration.

The consequence of the fractionated nature of much of the commercial agriculture system is that many of our commodities are not capable of mounting an integrated marketing program. That has serious implications for the effectiveness of the promotion programs U.S. agriculture does launch and for how we evaluate the promotion programs that we have.

In both strategy and tactics for marketing, agriculture is acting with one arm tied behind its back. For example, in an integrated firm, by looking at marginal costs and benefits, a strategic decision can be made about how much of the firm's resources to devote to new product development versus sales representation versus packaging versus promotion. In agriculture, decisions on each of these may be made by separate entities with no possibility of rejuvenging the mix of resources.

Tactical decisions about when and where to spend new product development money or promotional money are easier if done within one agency, but there is frequently no way to coordinate the activities of different agencies. For example, I have often seen shippers raise prices sharply just as their generic promotional agency was beginning a heavy media blitz, a situation that perplexes and frustrates retailers.

The IMPACT Center Program

The IMPACT Center at Washington State University was designed to deal as best we could with the issues just discussed. First, we realized that for long-term success in international marketing we had to be, as Kotler suggested, customer-oriented. We preach this to our constituents at every opportunity.

The concept is not an easy one to sell. In language, culture, and international understanding, our producer groups have been isolated from other countries, cultures and systems. There is a long habit and much comfort in being production oriented. Government programs reaffirm that bias. University Colleges of Agriculture and USDA research personnel are heavily production-oriented. Customer orientation requires all of us to continuously learn new skills.

The IMPACT Center has used the expertise of marketing professors, agricultural economists, consumer economists, anthropologists and rural sociologists to update our producers and exporters on the complex needs of customers in many markets. In addition to secondary data, we have used consumer surveys, buyer surveys, taste panels and trial shipments to get a more complete picture of what foreign customers want and need.

We work backwards from those market findings with our exporters, shippers, processors, packers, and producers to better meet foreign customer needs by either adapting existing products or developing new products. For example, the quality of the delivered product can have a major impact on repeat purchases and on the efficacy of promotion. We have worked with meat packers on efforts to lengthen the storage life of chilled beef. We have worked with apple packers on technological advances in handling and sorting that will lengthen product shelf life and permit apples to be shipped where their attributes are most appreciated. Although the marketing system is not integrated, we use every stratagem we can to make sure that our efforts are coordinated with other key entities.

In new products, we attempt to meet market niches that are large and profitable by producing products we know will be desired in foreign markets. For example, we have found strains of azuki beans that flourish in Pacific Northwest conditions. We have developed optimal methods for harvesting, handling, storing and processing them. And, all the time, we have worked closely with foreign trading companies, importers, and wholesalers to be sure these critical customers are satisfied.

IMPACT Center Beef Projects

We have worked long and hard on beef exporting. We were prominent among institutions that assessed the opportunities offered by the liberalization of the Japanese meat import system. However, we correctly predicted that prices for imported beef in Japan would decline over time. We were fascinated by the price premiums Japanese buyers were willing to pay for the highly-marbled Wagyu beef. That led us to set up a multidisciplinary team to evaluate all aspects of the feasibility of profitably raising Wagyu beef in the Pacific Northwest for export to Japan. The WSU team included animal scientists with expertise in genetics, fertility, physiology and nutrition, meat scientists, a rural sociologist, agricultural economists, and a statistician. We also drew on specialists in Canada. In all of this, we worked closely with beef producers, packers, retailers, exporters and trading companies.

The initial reaction from many American commentators was that we were crazy. At that time, U.S. beef producers were doing everything they could to breed and raise lean carcasses and cut out

whatever fat remained. Given the anti-fat hysteria in the U.S., they could not understand why there might be a large market in Japan for highly marbled beef.

They did not understand that the typical Japanese diet does not have the imbalance of fat that you find in the United States. The Japanese diet is based heavily on grains and vegetables. Meat is used mainly as a garnishment. Thin, well-marbled slices of beef are very appropriate for Japanese methods of cooking. This we had learned by studying all aspects of our Japanese customer.

At the same time that the physical scientists were carefully introducing, testing and multiplying Wagyu herds in the Pacific Northwest, our agricultural economists were at work. Dr. Bing Huan Lin at the University of Idaho, and Drs. Tom Wahl and John Ellis at Washington State University were examining the feasibility of profitably exporting Wagyu beef to Japan, given what we were learning about the Wagyu growth and performance characteristics and the tariff and other barriers to be surmounted. Dr. Wahl also conducted a hedonic analysis of the demand for Wagyu beef in Japan.

Because Wagyu are slow maturing cattle, the animal scientists were interested in finding American crosses that would preserve the marbling characteristic but give faster growth. They appear to have found that in Wagyu-Angus crosses. Wagyu-sired steers from Salers and Salers/Wagyu cows have now twice won the Grand Champion Pen Feed Beef Contest at the National Western Stock Show in Denver, Colorado, the most prestigious carcass competition in North America. Wagyu genetics have come to play a part in the improvement of many other American breeds.

The IMPACT Center has also developed a strong extension component. We have hired state specialists and continue to train county agents to help disseminate to the industry the need for and benefits of a customer-oriented approach.

Conclusion

The broad objective of the IMPACT Center is similar to that of NEC-63 in that we are both seeking to develop and evaluate ways to increase the profitability of agricultural marketing. Because of our integrated approach to marketing, we are constantly struggling with the fractionated and often warring entities that affect marketing profitability. We attempt to deal with the problem by being inclusive. We use teams of scientists so we can take a more holistic approach. That helps us to draw in industry participants as cooperators or advisers and helps them, in turn, to view the industry in a more integrated way. I cannot pretend that we have overcome the typical divisions in agriculture, but our work seems to be much more readily and widely adopted because of this inclusive approach.

However, NEC-63 has a focus on a specific marketing tool, promotion, that makes it difficult for you to take into account the other elements and entities in marketing that affect the efficacy of promotion. Your group has certainly done an excellent job of improving our understanding of promotion and in improving evaluation methods. However, I think that at some point you will need to realign your thinking and develop new tools to help us understand and evaluate broader marketing issues. I wish you well in your efforts.

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