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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

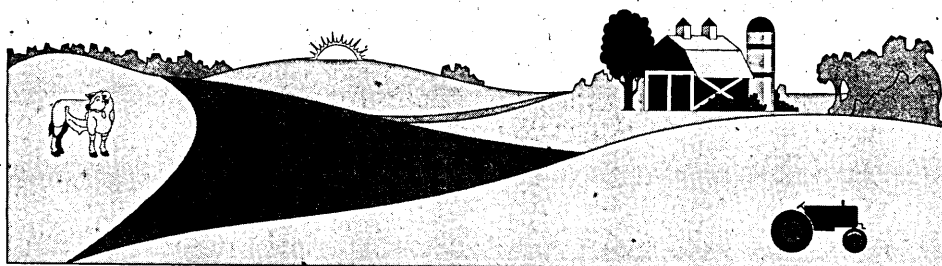
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PART FOUR

ROUNDTABLE DISCUSSION SUMMARY AND CLOSING REMARKS

DISCUSSION SUMMARY

Harry M. Kaiser

According to Tom Cox, the livestock presentations illustrate that there is a large budget available for good market research to evaluate various advertising strategies as well as market segmentation. Several presentations made this abundantly clear, with the detailed consumer diary data, and the extensive information of various segments of the market. Cox also mentioned that he observed two types of linkages in the beef market that are important for creating a more efficient market. The first ties integrated market research between countries, e.g., Canada-U.S. linkages. With freer trade in the future, these linkages could be exploited to reduce overlapping areas and increase efficiency in how producer dollars are spent in the two countries.

Another important linkage is between commodity groups within the U.S. For example, the fundamental demand data for beef and pork (other commodities as well) are essentially the same, e.g., income, population, prices, etc. Therefore, efficiencies could be gained by closer cooperation among commodity groups, although this probably will not occur due to the proprietary nature of these organizations.

Julian Alston said he was encouraged by the papers presented at this conference. He believes that professional economists need to be more concerned about "fragility economics," since results of econometric studies of promotion may be quite sensitive to model specification. For example, it is quite possible that, even given the same data, different model specifications could lead to very different results and implications for generic advertising. Consequently, some measure of model confidence in correct specification is very important.

A second point raised by Alston is that economists need to be concerned about looking at promotion evaluation within a multiple market framework rather than a single market framework because feedbacks between markets could have important effects on model outcomes. For some commodities, it may be adequate to use single market models, but for other commodities multiple market models are clearly necessary.

Henry Kinnucan argued that the theory of marketing includes more complexity than what traditional demand theory suggests. The way sociologists and psychologists approach the theory of advertising is very different than the way economists look at it. Kinnucan believes that we, as economists, need to bring dimensions from other social sciences into demand analysis and commodity promotion evaluation. While some of the variables necessary for extending the neoclassical economic framework are difficult to incorporate into models and measure, this is fertile ground for future research.

From his work on beef promotion evaluation, Ron Ward created a health concern index using NDP data. He found that while concerns about cholesterol had been steadily increasing over time, they have recently started to decline. On the other hand, consumer concerns about fat in the diet have continued to increase over time. The health variable is a significant variable in explaining changes in beef demand over time.

Harry Kaiser agreed with both of Kinnucan and Ward's arguments. Kaiser used the fat index constructed by Ward in three demand equations for: 1) whole milk, 2) lowfat milk, and 3) skim milk demand in New York City. He found that the fat index was negative and significantly related to per capita consumption of whole and lowfat milk, while the fat index was positive, but statistically significant in explaining per capita skim milk demand. Moreover, the fat variable was the most elastic demand factor among own price, income, substitute prices, and generic advertising. Thus, health perceptions on fat appear to be an important determinant of demand.

Henry Kinnucan returned the discussion to feedback relationships. Kinnucan argued that there may be important indirect effects in addition to the direct effect of advertising on health concerns. Advertising may not simply shift out the demand curve. It may also indirectly affect consumer attitudes and beliefs.

Des O'Rourke returned the discussion back to Tom Cox's original point about creating closer ties between Canadian and U.S. commodity promotion groups. He asked the question: Are we measuring our promotion effort correctly, since there are a lot of countries in the promotion game?

James Gellar stressed that the best type of promotion is done at the consumer level. For example, in-store demonstrations work well because they hit the consumer right at the store where the product is purchased.

Des O'Rourke questioned whether country marketing grades and standards have any validity any more. Do grades and standards for grapes, for example, still have an impact on consumer demand? Bruce Obbink stated that if immature grapes are put in the store, consumers will buy them. However, the customer will then let the grapes ripen at home and will not purchase grapes for a couple of weeks.

Julian Alston mentioned that an important question that needs to be answered is: How much does a year round supply of a commodity actually impact demand? We need to know how much it affects demand, not just whether or not it affects demand. Do the benefits of a year round supply outweigh the costs? This is an important empirical issue.

Henry Kinnucan returned the discussion to attitudes and beliefs of consumers and their impacts on demand. While consumer attitudes are extremely difficult to change with advertising, Kinnucan pointed to one example of a successful advertising campaign that did change consumer attitudes about a commodity. The commodity was catfish, about which consumers had negative perceptions. The catfish advertising campaign was very successful in changing these consumers' negative perceptions and attitudes regarding catfish. Kinnucan found that incorporating perceptions into demand models for catfish was important in determining correct model specifications.

Daphne Taylor raised another important modeling issue: whether advertising should be treated in a more sophisticated way than simply as one variable (with or without lags) in a demand equation. One problem is that economic theory of advertising has not advanced very much in the past years. While a lot of empirical issues have been addressed about functional form, lagged variables, multiple markets, etc., the theory is lagging behind. Also, terminology needs to be better understood by economists. For example, promotion includes advertising and merchandising. An excellent understanding of the industry being evaluated is critical.