

Overview of the economics and impact of generic promotional campaigns for agricultural products

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Background



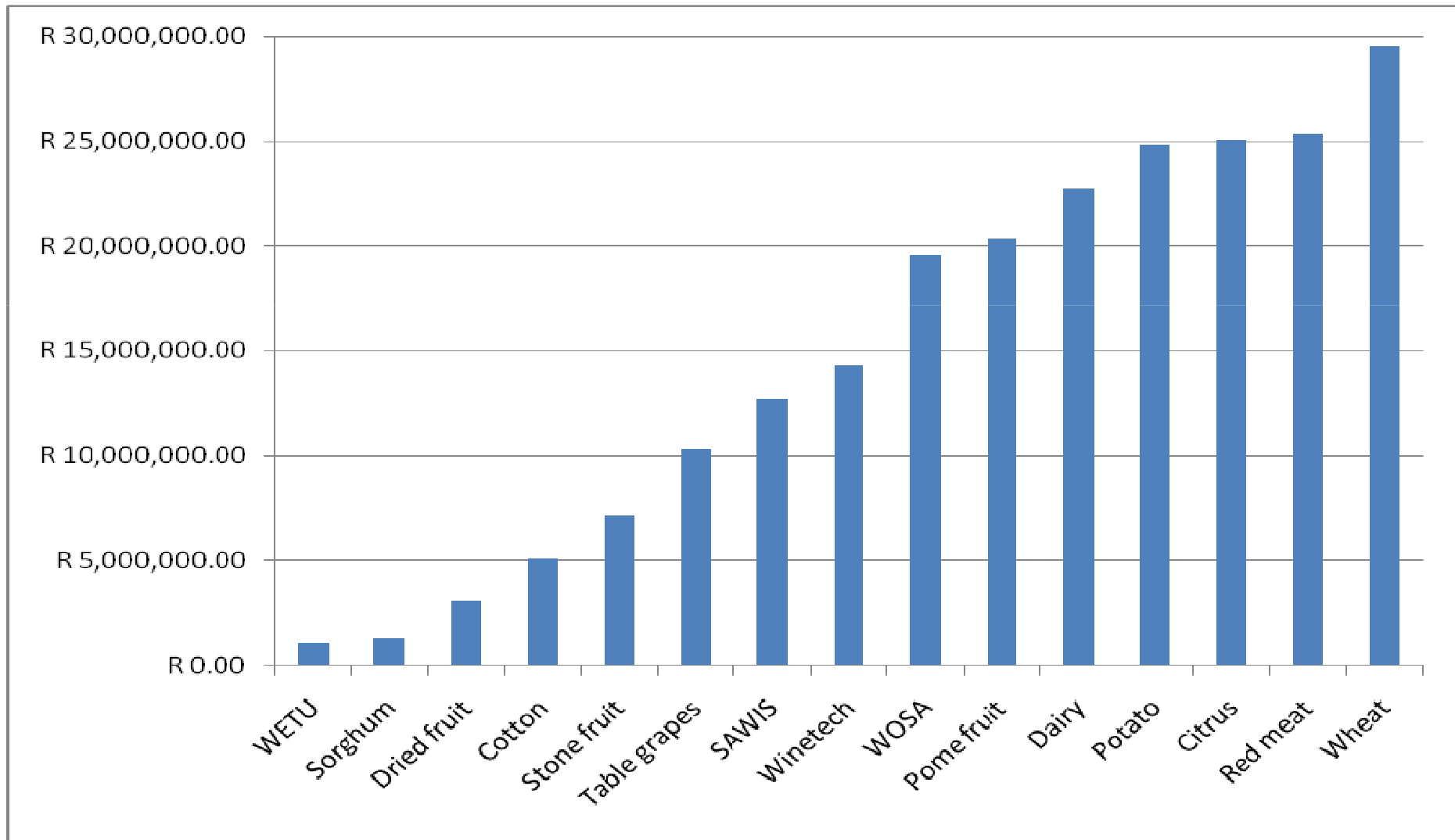
- Report has been compiled on request of the National Agricultural Marketing Council.
- Debate regarding the efficacy of generic promotional campaigns for agricultural products.
- Understand the desirability and efficacy of these measures within the statutory environment.
- Understand the merits and demerits of this approach to promoting the demand for agricultural products.

Background

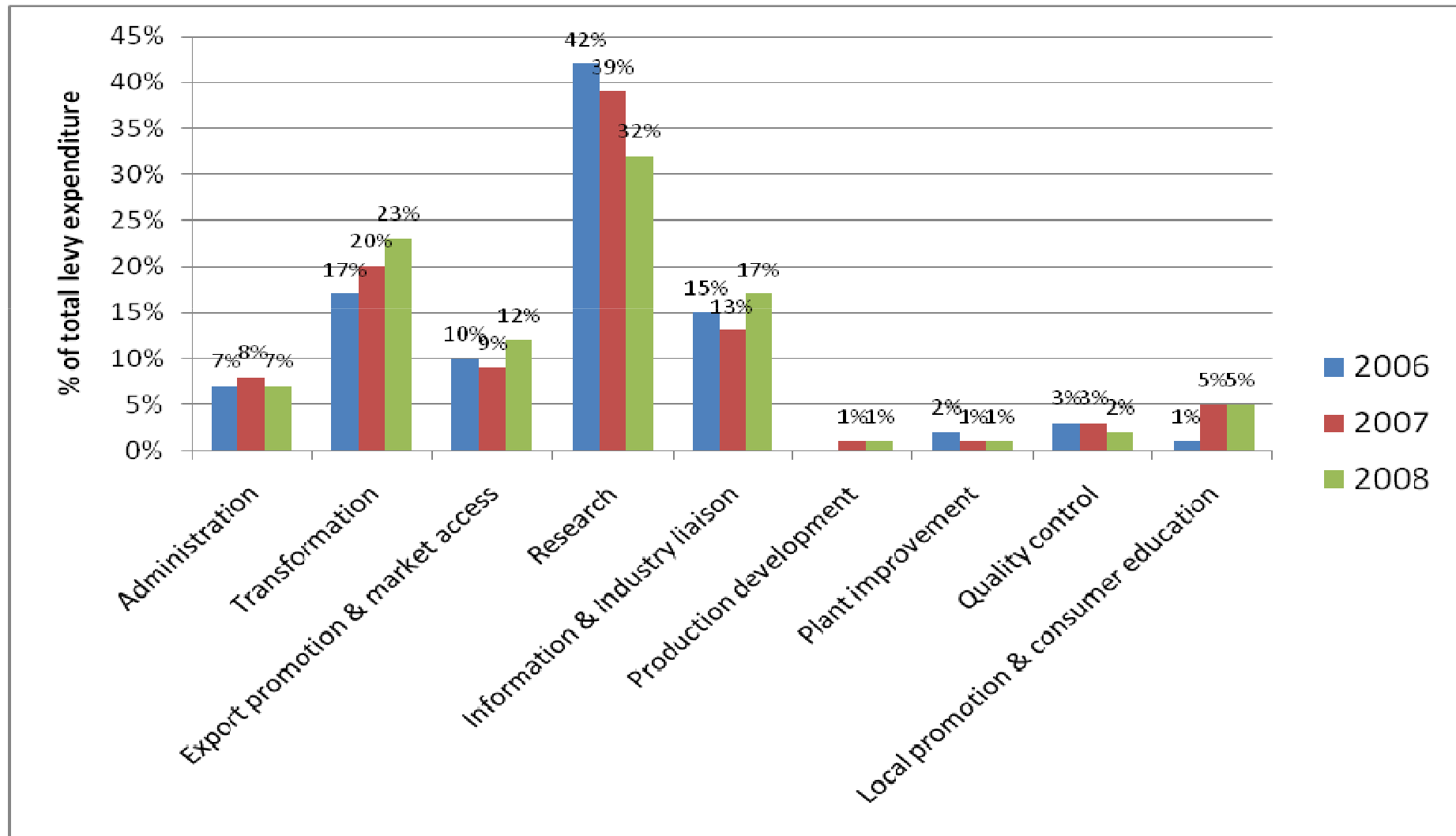


- A number of commodity organisations currently have operational statutory measures in place.
- These include the collection of levies to fund a variety of activities in the interest of the specific commodity sector.
- During 2008 a total of R222.26 million in statutory levies was collected on behalf of 15 commodity organizations.
- The commodity organizations that were funded with statutory levies during 2008 were citrus, cotton, dairy, pome fruit, stone fruit, table grapes, dried fruit, potatoes, red meat, sorghum, SAWIS, Winetech, WOSA, WETU and wheat.
- The most prominent of these sectors are the wheat, red meat, citrus and potato sectors.

Levies collected in 2008



Uses of levies



The success of generic promotional programs



- In the US more than a billion dollars is spent annually on generic commodity promotion, with spending in some individual product categories exceeding \$100 million.
- In South Africa R37 million was spent in 2008 on generic commodity promotion by way of statutory measures.
- Extensive economic research has been done for many years to evaluate generic promotion programs.
- A number of studies evaluating the impacts of promotional programs on the demand for agricultural commodities have been undertaken for a variety of generic promotion campaigns.

Economics of promotional campaigns



- All generic promotional campaigns are intended to either enhance or lessen the erosion in the demand for commodities.
- The demand for commodities is influenced by a number of factors including the generic promotion activities.
- Most of the factors that affect demand for commodities are completely outside the control of the industry.
- Declining demand not equal to a failed promotional program since a variety of factors could work against promotional efforts.
- Evaluating the success of generic promotional programs, the challenge is to measure the impacts of the generic programs under circumstances where a variety of demand

Economics of promotional campaigns



- Generic promotion, by definition, should be brand or market share neutral.
- It may increase total demand but it should not result in one firm or group of firms gaining market share over another.
- In theory brands associated commodities are not expected to lose or gain market share from the generic advertising of the commodity.
- Under circumstances where a generic campaign enhances or reduces one brand share or market share relative to others a significant equity problem occurs.

Economics of promotional campaigns



- Equally, if a commodity based firm is of sufficient size to successfully promote its own brand and capture those gains the firm may argue that their contributions to generic promotion efforts could be more effectively used to promote their own brands.
- In this regard the level of concentration and the competitive structure of the commodity sector become major factors in determining the usefulness of generic promotional campaigns.
- At some point, notwithstanding the economic arguments for or against generic promotional campaigns, the implementation of these programs may move beyond the economics and into the political, legislative, and judicial arenas.

Evaluation of promotional programs



- The economic evidence is generally in favour of generic promotion via mandated marketing programs.
- General evidence confirming the positive effects of generic promotional campaigns.
- Results generally vary between very low impacts in some instances to significantly positive impacts in other instances.
- Notwithstanding the varied impacts of these generic programs the evidence suggests that generic promotion can expand total demand versus individual firm efforts that often compete only for market share and shelf space with little impact on expanding the total pie.

Evaluation of promotional programs



- Generic promotion is only one of many factors affecting the demand trends for agricultural products.
- Certain products may be more promotable by way of generic campaigns than others.
- Products that speak to broader societal trends and consumer preferences, like health, wellness and convenience are easier to promote through generic promotion programs.
- To be profitable, it is not sufficient for the generic advertising to simply have a statistically significant impact on demand.
- Nor is it sufficient to have a marginal revenue from advertising greater than one

Evaluation of promotional programs



- Advertising must lead to a rise in the product's price sufficient to cover any additional production costs.
- Whether or not this is the case depends on:
 - ▣ the elasticity of supply,
 - ▣ the price elasticity of total demand (which depends on the elasticities of domestic and export demand and the fraction exported),
 - ▣ and the total advertising elasticity of demand (which is equal to the elasticity of domestic demand with respect to advertising multiplied by the fraction of output consumed domestically).

International case studies



Australia Meat Industry

- Evaluated demand response to advertising between 1977-1988
- Expenditures on beef and lamb advertising increased from \$0.05 million to \$8.4 million and the Australian Pork Corporation increased its advertising expenditures from zero to \$1.8 million.
- The results suggest that advertising may have been profitable for the Australian beef industry
- Advertising had statistically significant positive effects on demand for beef and negative effects on demand for chicken.
- Pork advertising, in some instances, was also found had a

International case studies



Washington Apple Commission

- Washington Apple Commission generically promoted apples for the Washington state industry from 1937 until 2003.
- Demand movement, associated with promotion, tends to be positive, though the results are mixed.
- The average return to advertising topped \$14.5 per dollar.
- This study also recommends that generic goods such as apples may need industry level promotion since these products vary little across producers, and may not be efficiently advertised privately.

International case studies



California Orange Juice

- Research determined that every million dollars of Florida Department of Citrus promotions of processed citrus juice, industry revenues at the delivered-in level increased by \$1.8 to \$3.8 million.
- On-tree net rates-of-return from the processed orange juice promotions show positive gains between 70% and 256%.
- During the average season during the period between 1999 and 2004, a \$40 million promotion investment would generate from around \$91 to \$227 million in additional dollars at the delivered-in level.
- Florida growers capture between 70% and 80% of the gains with the difference going to imports.

International case studies



California Egg Industry

- Generic advertising had a positive impact on producer prices and net profits in the California egg industry.
- They calculated that a 1% increase in advertising expenditures resulted in an average 0.13% increase in producer prices.
- A marginal rate of return to advertising of 6.9.
- In other words, each additional dollar spent on advertising generated \$6.90 in producer profits.

South African case studies

Pork Industry

- South African Pork industry's experience with generic promotion is positive and quite satisfactory.
- 33% increase in per capita consumption of pork from 3kg per person to 4kg per person in South Africa in the past ten years.
- In the pork industry's experience the industry loses market share to other commodities in the absence of promotional campaigns.
- Especially for fresh meat, not well suited to branding
- Generic promotion remains essential to keep the commodity in the minds of consumers.
- Consumer's high propensity to substitute meat products

South African case studies



Pork Industry

- Pork industry in South Africa has spend an approximate R8m per year on advertising and promotion including television adverts, in store promotions and printed media.
- Industry conducted market research to understand market segments to make use of the appropriate marketing channels.
- Generic promotion everyone is compelled to contribute which means the burden per producer lower while everyone shares in the benefits.

South African case studies



Starch Industry

- Advertising effects on carbohydrate consumption on the macro level is insignificant and that the use of generic advertising does not enhance the national demand of either maize meal or potatoes
- Branded advertising influences the demand for carbohydrates marginally.
- The specific study also included that the findings for the South African starch sector cannot be generalised in respect to all carbohydrates and agricultural commodities since commodities have different characteristics, income elasticities, price effects etc.

South African case studies



Dairy Industry

- The South African Dairy Industry implements a generic promotional strategy by way of a consumer education program.
- The purpose of the project is not only to serve the interest of the dairy industry, but also to empower the consumer with information to enable them to make responsible choices.
- The consumer education communication is done in such a way that it does not impact on the marketing activities of any firm in the dairy industry aimed at differentiating its products in the eyes of the consumer from that of competitors.

South African case studies



Dairy Industry

- The communication campaign is shaped by the outcome of comprehensive research regarding the views and behaviour of South African consumers in respect of dairy products.
- The research shows that insufficient knowledge regarding the benefits of dairy products exists
- At this stage a comprehensive assessment of its impact on consumer behaviour is not viable.
- However, in their view, the selection of messages and media to convey the messages are based on sound scientific information

South African case studies



Deciduous Fruit

- If they want to maintain and grow their market share it is essential to differentiate themselves from their competitors.
- Struggles to compete on volume with the other Southern Hemisphere countries, have to find unique selling points and characteristics in order for them to remain competitive and grow
- Sector's generic industry campaign is in support of private brands as a consumer education campaign
- Differentiate South African deciduous fruit product from other supplying countries.
- Room for individual companies to do their own branding within the bigger umbrella campaign

South African case studies



Deciduous Fruit

- It is exceedingly difficult to measure the difference that the generic promotional campaign makes to South Africa's image as a high quality, reliable supplier of fruit.
- It is this image and the fact that the sector is taking "ownership" of their products and brand and doing something to market their fruit that often times influences importers, buyers and supermarkets to source from South Africa when given the choice.
- The results of this campaign point to an overall success with retailer and importer feedback indicating a good season in terms of quality and availability of products and a number of retailers report good year on year sales growth as a result of the campaign.

South African case studies

Deciduous Fruit - Freshworld

- Freshworld, a South African fruit exporting company, with the support of the NAMC, recently conducted promotional activities with a Pan-Asian retailer, Dairy Farm.
- The objectives of the project were to increase sales and customer awareness towards South African citrus, varieties, taste and quality in the participating supermarkets in the three Asian countries.
- Dairy Farm is a leading Pan-Asian retailer and at the end of December 2008 the group and its associates operated 4649 outlets including supermarkets, hypermarkets, health and beauty stores, convenience stores, home furnishing stores and restaurants. The turnover then amounted to US\$ 7.7 billion.

South African case studies



Deciduous Fruit – Freshworld

- Promotion held from August to October/November 2009
- Promotions were for different citrus products held in Hong Kong, Singapore and Malaysia in different supermarket groups
- The retail outlets that participated in Hong Kong numbered 264 stores, Singapore 98 and Malaysia 109.
- The promotional activities consisted of in store competitions, advertising, TV advert, point of sale material and product displays.
- Freshworld reports that on average an increase of 18% in sales volume was observed in the particular stores for the specific period in 2008 and 2009 as a result of the

Where are generic promotions appropriate?

- If existing and potential consumers already have complete knowledge about the product and its attributes, and the underlying facts never change, then no advertising is needed.
- In addition, if consumption is already at capacity (i.e. full market penetration), additional promotional programs would have no impact.
- It is noted that given technological changes and the entry and exit of consumers, these situations are seldom seen and information is almost always needed to some degree.
- With the need for information, generic promotions are more likely to be successful if the product has common attributes valued by the consumer base.

Where are generic promotions appropriate?



- Products that have consistency in quality and keep their identity throughout the distribution channels are essential to generic programs.
- Orange juice at the producer/processor level is viewed similarly at the retail level, while wheat at the production level has little visible linkage to bread at the consumer level.
- Generally, generic programs are expected to be more effective with the greater number of uses for the product and the lower levels of substitutes.

Conclusions



- Rationale for generic promotion is particularly strong where there are large numbers of producers responsible for a generally homogeneous agricultural product, and individual producers are unable to differentiate and promote their own products.
- This rationale diminishes where relatively few producers are producing a product or where the product is not homogenous and easy to differentiate.
- The specific objectives of generic promotion are to increase sales or contain reductions at given prices, augment prices or at least contain reductions, and induce consumer loyalty

Conclusions



- This overview has also highlighted the economics of generic promotional campaigns.
- Reviewed some empirical results for a variety of generic promotional campaigns.
- Extensive empirical evidence exists illustrating the predominantly positive effects of generic promotional programs on the demand for commodities.
- In some instances, specifically for the generic marketing of potatoes and maize meal, generic promotion programs were found to be ineffective and it was proposed that a branded approach to the marketing of these products would be more appropriate.

Recommendations



A framework for successful generic promotional campaigns:

- Commonality of interests
- Strong producer support
- High level of industry participation
- Predictable funding
- Credible evaluation of effectiveness
- Scientifically based testimonial
- Effective implementation arrangements

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