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Testimony Before the Hearing to Consider a Proposed Federal Egg Research and Promotion Order Philadelphia, Pennsylvania May 12, 1975

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CORNELL
AGRICULTURAL ECONOMICS
STAFF PAPER

TESTIMONY BEFORE THE HEARING TO CONSIDER
A PROPOSED FEDERAL EGG RESEARCH AND PROMOTION ORDER
PHILADELPHIA, PENNSYLVANIA
MAY 12, 1975

By

Olan D. Forker

May 1975

75-9

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TESTIMONY BEFORE THE HEARING TO CONSIDER A PROPOSED
FEDERAL EGG RESEARCH AND PROMOTION ORDER
PHILADELPHIA, PENNSYLVANIA
MAY 12, 1975^{1/}

My name is Olan D. Forker. I am professor of Agricultural Economics at the New York State College of Agriculture and Life Sciences at Cornell University in Ithaca, New York. I reside at 111 Randolph Road, Ithaca, New York.

I appear here as an interested party, on my own behalf. I am not involved in the production or marketing of eggs.

I have been involved in research, teaching and extension programs associated with the pricing, marketing and distribution of eggs for approximately 14 years. I am currently a member of the Poultry Survey Committee that meets quarterly to make egg price forecasts. I am also a member of the Egg Market Evaluation Committee which, associated with Egg Clearinghouse, Inc., reviews the trading on Egg Clearinghouse and publishes twice weekly an egg price quotation for gradeable nest run eggs.

During the past three years I have been involved also in an intensive research project designed to determine the extent to which the milk promotion program of the dairy farmers of the State of New York has influenced sales and returns to dairymen.

My purpose in appearing at this hearing today, is twofold. First, I will introduce some evidence that, in my opinion, supports the Order. I will do this by introducing some results of the research that we have done on milk promotion. This research indicates that it is reasonable to expect that generic advertising might increase sales.

Second, I would like to emphasize the need for and the importance of evaluative type research. I do not think the current proposed Order is explicit nor specific enough on this issue, although it does suggest a periodic review by the Egg Board in paragraph 1251.327(d). My comments on this second point are directed toward paragraphs: 1251.311 on the definition of research; 1251.333 on reports; 1251.326 on the duties of the Egg Board and 1251.327(d) just referred to.

^{1/} In response to the Notice of Public Hearing published in the Federal Register, Vol. 40, Number 60, Part I, pages 13513-13517, Thursday, March 27, 1975.

Supporting Evidence

As most people know, a large amount of money has been spent promoting agricultural commodities over the years. Funds have been collected voluntarily for several commodities such as eggs, broilers, turkeys, beef, pork, and milk. Mandatory assessments for promotion purposes have been made under state and federal legislation to finance promotion programs for milk, cotton, and a whole host of fruits including citrus, and vegetables.

For the most part, no one knows by any objective measure whether the farmers that have provided the funds have benefited or not.

In general, economists are negative on generic promotion programs, arguing that even if a shift in demand does occur, the producers will expand production in a greater amount and thus defeat the purpose of the program, that of increasing prices and returns.

I would like to introduce as evidence, Cornell Agricultural Economics Staff Paper 74-23, entitled, "An Econometric Analysis of the Response of Milk Sales to Advertising in Selected New York State Markets" by Stanley R. Thompson and Doyle A. Eiler, dated September 1974, which indicates that the dairy farmers of New York State did benefit, at least to some extent, from their program of generic advertising. I have been closely associated with the research reported in this publication and am quite familiar with the methodology and the results.

This report indicates that the dairy farmers of the State of New York, through an advertising and promotion program conducted during the year 1973, increased the consumption of fluid milk by 95 ounces per capita in the New York City SMSA (Standard Metropolitan Statistical Area), 24 ounces per capita in the Syracuse SMSA and 6 ounces per capita in the Albany-Schenectady-Troy SMSA. By accounting for the increase in the value of milk sold as Class I compared to the value of that same milk if it had been sold as Class II and used for dairy products instead of fluid milk, it was determined that the dairy farmers received a \$3.38 return on each additional dollar spent for advertising in New York City.

The study goes on to show, however, that, although the program conducted in Albany and Syracuse did increase sales, the increase was not enough to cover costs. In Albany, the additional return was 85 cents short of covering each dollar spent. In Syracuse the return was 51 cents short.

One cannot and should not infer from this study of milk promotion that egg farmers will, in fact, benefit from a program of their own. However, it does indicate that it is possible to shift the demand for a commodity through generic or commodity promotion efforts. In one market, New York City, in the short run, an objective measure indicates that generic promotion paid off for New York dairymen. Egg producers will never know for sure whether they might benefit until they try.

Need for Evaluative Research

This points up the need for evaluative research. The producers will not know how much or whether they benefited even after they try unless some specific arrangements are made well in advance for evaluation. The wording in 1251.327(d) which calls for periodic review by the Board, of programs and projects is an attempt to place the responsibility for evaluation on the Board. This is commendable and certainly in the interest of producers. However, the Board cannot make very meaningful reviews unless they have at hand when they make the review, objective measures of the extent to which the program, in fact, did influence sales or consumption. The Order, as it is now written, does not appear to provide the organization nor the authority for the determination of such objective measures.

The Board cannot rely on the advertising agency for such objective evaluative type research. They will do research, and they will do it well, to determine the best theme, media, message, and approach to use, given a certain amount of available money. They should not be expected, however, to do the research necessary to measure sales response or to objectively evaluate their own program in terms of the benefits to producers.

The American Egg Board or whatever agency the Egg Board of this Order elects to manage the program under the Order likewise should not be expected to do the research to evaluate their own work. The Egg Board established under this Order should be required to organize and collect the necessary data to evaluate the programs.

To ensure objective evaluation and review, the Order should contain specifications to establish or authorize to be established, the kind of a staff organization necessary to carry out objective third party evaluative type research on behalf of and for the Egg Board. Furthermore, the Order should establish the requirement to collect or authorize to be collected, the kind of data necessary for such evaluation.

The federal orders for milk promotion do not generally include specific wording which requires review comparable to that specified in 1251.327(d) in this Order. I know of no serious attempt at objective evaluation of sales response under a federal order by or for the Board or by or for the Secretary of Agriculture. I know of only two situations where such Boards responsible for commodity promotion programs have required and supported evaluative research. The Florida Citrus Commission has a very capable and active evaluative research operation. The New York Dairy Promotion Order Advisory Board currently relies on the faculty at the New York State College of Agriculture and Life Sciences to help develop objective evaluative measurement techniques. They provide data and funds for survey work and statistical analysis. The College provides the faculty time.

Paragraph 1251.311, Research, could perhaps be construed under a very loose interpretation, to authorize evaluative type research. However, it is not explicit and does not require it. Since this paragraph is copied directly from the Act itself, it is probably not possible to modify it.

Therefore, I would suggest that the authorization or requirement of evaluative type research be specified elsewhere in the Order. This could perhaps be done in two ways:

- 1) Add to paragraph 1251.326, Duties, a statement which would require that the duties of the Board include the establishment of an organization and a reasonable procedure to conduct research to evaluate the effectiveness of the program(s) that they might implement, and
- 2) Add a provision in paragraph 1251.333 on Reports which would make more specific, the need for sales or market data. I recognize the need for the items already listed in that paragraph. They are there for the purposes of accountability and audit. However, such data will not help the Board in any way in the evaluation of the effectiveness of the program. Only data on market volume will be of any benefit. Aggregate disappearance data for the United States, as published by the U. S. Department of Agriculture, will be of no benefit either. It is too aggregative and not market-specific.

Only specific sales data and/or market data collected so as to match up with programs will suffice. I would encourage the administration to add to this paragraph 1251.333 an item, "data on sales or market volume delivered into specified markets or market areas."

Summary

In summary, in my opinion, egg producers should have the opportunity to vote on the Order. I think they should have the opportunity to try, and to see whether or not promotion and advertising might benefit them and their industry. No one can objectively argue beforehand that it will or will not be beneficial. Furthermore, I think it essential, in the interest of producers and in the interest of efficient management of the funds, that more specific requirements or authority for evaluative type research be written into the Order.

AFTERTHOUGHTS

The foregoing testimony was read into the record verbatim. Questions and cross examination following the presentation took approximately one hour. Most of the cross examination questions had to do with the whole area of program planning and evaluation. In retrospect, the testimony and examination identified a basic problem with government authorized and monitored industry programs of this type.

Program planning and evaluation is a difficult thing to handle in any organization. Most federal government and state government agencies have a staff responsible for the collection of information and development of the criteria and procedures for program planning and program evaluation. The Federal Order programs do not have a built in organization, incentive or mechanism to provide the resources necessary for the collection of data and the evaluation that might be advisable.

The advisory board has the responsibility for the development of programs and projects and is usually faced with the responsibility of choosing from a great number of programs and projects presented to them for consideration. To adequately and objectively select the best, they need criteria, which they can develop, and some objective evaluation of the options. They also need objective evaluations of on-going programs and projects so they can decide when to stop one and start another and where to place emphasis. The way the Egg Research and Promotion Order is now written, the probability of adequate evaluative research being completed is very low.

Program planning and evaluation is by necessity a complex endeavor involving a mix of subjective and objective evaluation. The tendency in the evaluation of promotion programs is to use subjective evaluation because the determination of objective measurements is costly and complex. Although one cannot prescribe a specific approach nor a specific rewording of the Order, it is obvious that more direction needs to be given to the Board so that both the public and the industry interest can best be served.

The following brief was sent to the Hearing Clerk following the hearing.

May 20, 1975

Hearing Clerk U.S. Department of Agriculture
Washington, D. C. 20250

Dear Sir:

BRIEF: Egg Research and Promotion Order, Philadelphia Hearing.

For the record, I would like to clarify and slightly modify some of the statements which I made during cross examination at the hearing in Philadelphia on May 12, 1975.

It is probably true as I stated in the hearing that evaluative research would be permissible under the terms of the Order as now written in paragraphs 1251.311, 1251.327 (b) and 1251.327 (d). However, it is not clear that this was the intent. But more important, it is my expectation, based on the experience of other Boards that have administered promotion programs, that such evaluative research will not be started early enough and is not likely to be done at all unless a specific charge and some guidelines are written into the Order.

In view of the question raised during cross examination, it appears that the concern of mine is only part of a broader area of concern. The broader area has to do with review and evaluation of program and project plans before they are begun and (my concern) on-going evaluation of programs and projects after they have begun. This broader area could be called program, planning and evaluation.

This broad area is difficult and potentially troublesome to manage. The U.S.D.A. has the responsibility under the Order to review and approve or disapprove proposals of the Egg Board. This the U.S.D.A. must organize to do. Unfortunately this will likely, but not necessarily, place the U.S.D.A. and the Egg Board in the position of adversaries. This will not provide the kind of evaluative research nor the rapport between the Egg Board and the research unit that is necessary to make for a successful on-going evaluation effort; an effort that would be dynamic enough to be current and of help in providing the Egg Board feedback so that they can make changes in tune with the dynamic nature of the market.

In my direct testimony I argued that the program and project contractees of the Egg Board are not the appropriate ones to evaluate. They clearly have a vested interest in the programs which they develop.

Since neither the U.S.D.A. nor the contractees of the Egg Board are in a position to provide the Egg Board the kind of evaluative research nec-

essary for the best program planning and program and project management, and since the Egg Board is not likely to organize or contract to have evaluative research conducted, under the current wording of the Order, it follows that the Order should include wording to direct them to organize to conduct evaluative research (this can be used for program planning and evaluation). The person or persons employed to conduct such evaluative research should be responsible directly to the Board and to no other party, if they are to be objective and thus of benefit to the Board.

Such wording should, of course, provide the Board a great deal of flexibility in deciding which programs and plans need evaluating and in selecting the technique for evaluation, and in determining the amount of money to allocate to this activity.

Sincerely yours,

Olan D. Forker
Professor of Marketing