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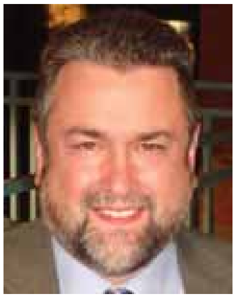

Generic Promotion Program Requires Due Diligence

At a recent meeting called to discuss the possibility of launching an industry-wide generic promotion program, the advocates for the program presented the case of what they characterized as a "highly successful" generic produce promotion program in Western Australia as an example of what could be accomplished with a similar program in the United States. A participant in the meeting spoke about how incredibly fantastic the results were from a generic program designed to boost the floral industry, while still another participant described a fantastic program for Washington State apples.

Now these three programs were wildly different and each had its own back story. Still and all, it is interesting to note that each one of these three programs is now defunct because the producers that were supposedly benefiting so greatly from the programs declined to fund the efforts.

It is possible the producers were short-sighted or mistaken. It is also possible that these businesspeople were perfectly rational and did not experience the lift in profitability that these boards promised.

There is confusion at the heart of this debate over a generic commodity promotion board with a mandatory assessment on the industry. The confusion is over what the purpose of such a board might be.

The effort is being spearheaded by the Produce for Better Health Foundation, the people who brought us 5-a-Day and, more recently, Fruits & Veggies More Matters, and this alone causes confusion.

This foundation is a non-profit entity. Its purpose is to create "better health," not to increase the profitability of produce companies. So in this sense, any expenditure that results in an increase in produce consumption — which means better diets for Americans — is a win for the foundation.

But a generic promotion board is not a charity — one cannot donate to it and get a tax deduction. Its purpose is to help producers market themselves profitably via a collective effort that none could afford on their own. This means that not only must a generic promotion program increase demand, it must do so at a price that produces a return higher than that which the produce firms could have gotten by investing the money elsewhere.

This is a significantly more difficult hurdle to breach than simply selling more product, and it is one that the advocates for the plan have not even begun to establish.

The proposal is for a big program — $150 million of industry funds over the next five years. Neither a company, nor an industry, should make such an investment without careful research and consideration.

Unfortunately, the proposal as it stands lacks independent research on any of the important issues. If we are to even consider this proposal, we need to get professional input on questions such as these:

1) What are the expected consumption levels in the absence of this program?

2) How much advertising is necessary to boost demand sufficiently that it will entice additional product to be grown or imported so that consumption can rise?

3) What will be the lag time between the increase in demand and the availability of increased supply?

4) How will each commodity be affected by the increased advertising? Do all items respond equally? How does each item stand when it comes to acquiring increased supply?

5) How do the returns on such an investment compare with other options, including investing in commodity-specific generic promotions?

We need more answers and that means more research before we can start building.

There are many obvious obstacles that explain why the produce industry does not have a program already:

A) Whereas a cow is a cow and a pig is a pig, produce is many different items. It is not obvious that all produce items can or should be promoted jointly. How can we ensure the money is spent fairly?

B) The Dairy Board spends about $300 million a year. This proposal calls for the produce industry to raise $30 million a year. Can we actually change consumption habits with that kind of budget?

C) Many produce businesses are not really scalable. They may have a fixed amount of land or a fixed amount of siblings... in any case these enterprises, often family-owned, don't want to or cannot get bigger, so doubling sales for the industry does them nothing. They need higher prices, and it is not clear this program will produce such prices. Is it fair to "tax" these players so others can get the benefit?

D) Are we going to impose this program on growers without their consent? The proposal calls for "first handlers" to pay the assessment and have the vote, but many of these first handlers will bill the "tax" back to the growers. In effect, the growers will pay while others run the program. Is that right?

We should never close the door on big ideas, but, at the same time, we should never plunge into things without doing our due diligence. Right now we need more answers and that means more research before we can start building. Some of the advocates are impatient and are doing their own cause a disservice. If they would focus on building a strong foundation, rooted in solid research by objective parties, in time this industry would raise the roof all on its own. **pb**