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Selling It, Co-op Advertising Lags Behind Private Sector Food Companies

by

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Selling It
Co-op Advertising Lags Behind Private Sector Food Companies

*Richard T. Rogers**

When it comes to advertising, food processors out-spend every other sector of the economy. However, farmer-owned cooperatives seem less enamored of the powers of Madison Avenue than their privately owned counterparts in the food industry.

Advertising data spanning a 20-year period, from 1967 to 1987, show that agricultural cooperatives spent proportionately less to advertise their brand-name products (based on their share of food dollars) than did non-cooperative food processors. The data also indicate that cooperatives' share of branded advertising expenditures has remained unchanged during the 20-year period examined for this study.

Agricultural cooperatives held their greatest advertising shares in food processing markets that had low value added to sales ratios, had low product differentiation, were commodity oriented and had a high proportion of unbranded sales—even in retail stores. Markets where cooperatives advertised heavily were not dominated by the 20 largest food processors (which prefer differentiated products and advertising rivalry to direct price competition).

There are several reasons for this pattern. An agricultural cooperative is usually an extension of the farm enterprise, governed by relatively homogeneous boards with most—if not all—of the board members having farm production backgrounds. The primary objective of cooperatives has been to assure their farmer-members a market for their output. Some farmer-members have failed to see the payoff from investment in brand development while others have reaped great rewards by building brand names for their cooperative products.

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The outlook of those who have not seen value in brand name development is often characterized by a production orientation, rather than a marketing outlook. With less emphasis on marketing than is typically found in investor-owned firms, there may be greater difficulty in getting the management, board and general membership of a cooperative to approve larger advertising expenditures. The additional volume of a product that cannot be sold under the cooperatives's retail brand name is likely to be sold as private-label store brands or generic labels rather than kept off the market.

Agricultural cooperatives usually operate in first-stage processing that is characterized by a low number of value-added products and is often undercapitalized. This further limits vertical extensions into the food industry. In addition, there are substantial barriers to mobility from expanding the unbranded slice of a market to the national brand market, which is often dominated by the 20 largest food and tobacco processors.

Although a clear picture emerges from the data showing that agricultural cooperatives advertise less than non-cooperatives—both in total amounts and intensity (measured in terms of advertising as a percentage of net sales)—one cannot conclude that the lower emphasis on advertising is the result of their being agricultural cooperatives. Nor can they be attributed to he characteristics of the market in which cooperatives operate. The two factors are likely interrelated, making it difficult to discover the true causes.

Numerous examples exist where non-cooperatives in commodity-oriented markets with little or no product differentiation successfully launched substantial advertising campaigns. Perdue's aggressive advertising of its broilers and Tyson's continual attempts to add value to the basic poultry products are prime examples. Few agricultural cooperatives have tried such a marketing approach.

Domination by Large Players

There are more than 15, 000 food and tobacco processing firms today. However, the food processing sector has been dominated by a handful of large firms for most of this century. The degree of domination by the very largest firms has accelerated over the past 15 years.

In 1987, the 100 largest food and tobacco firms accounted for 70 percent of value-added in the sector while the 20 largest food and tobacco firms accounted for 40 percent of the value added. This share is up sharply from the 23 percent value-added share they held in 1967. Food companies ranked 21 to 100 barely held their market share during the 20-year period.

Agricultural cooperatives have also grown in size during this period. However, within the food and tobacco processing sector, agricultural cooperatives have not kept pace with the growth of the largest food processing firms. Only four of the largest 100 agricultural cooperatives were among Fortune's to 100 food companies on the basis of value added in 1982, and they ranked in the bottom half of the top 100.

Since cooperatives are more prevalent in commodity-oriented markets, they rank higher when total sales—rather than value added—is the method of measure. When this yardstick is used, co-ops rank higher, with four falling in the 21 to 50 group of largest food firms of 1982, according to Rogers and Marion (*Food Manufacturing Activities of the Largest Agricultural Cooperatives: Market Power and Strategic Behavior Implications*, 1985, Richard Rogers and Bruce Marion).

Despite this commodity orientation, agricultural cooperatives have a significant presence in food processing. In 1982, 68 out of 100 largest cooperatives were involved in food processing and accounted for 7.2 percent of the value of processed food shipments.

Co-ops Spend $73 Million to Advertise

In 1987, the food industry spent just under $6 billion to advertise food and tobacco products. Agricultural cooperatives spent $73.6 million, or 1.2 percent of the total. Advertising by commodity associations—often closely related to cooperatives—was much higher, at $215.8 million, or 3.6 percent of all food industry advertising.

When narrowing the focus to specific food groups, data show that cooperatives spent their largest percentage of advertising in the fresh produce category. Here, they account for about 25 percent of the total $33 million spent (including $20 million of association advertising). One cooperative, Sunkist, accounted for nearly half of the $8.4 million cooperatives spent to advertise fresh produce. If association spending is omitted, the cooperative share of advertising in the fresh produce sector jumps to 65 percent. However, the amount spent to advertise non-processed foods is relatively small compared with what is spent to advertise processed foods.

Looking at the nine major processed food groups, cooperatives' share of advertising dollars varied from a low of nearly zero in the grain-mill and bakery products group to a high of over 5 percent in preserved fruits and vegetables. Cooperatives spent $37.3 million—or 57 percent of all their advertising dollars—in this category. Cooperatives spent $6.5 million on dairy product advertising, accounting for 2.8 percent of all branded advertising in the category.

This figure seems small considering that cooperatives accounted for 24.4 percent of the value of dairy product shipments in 1987. The difference underscores how cooperatives tend to leave more differentiated consumer products to investor-owned firms, even in industries where they operate processing plants, such as ice cream plants.

Cooperative spending for branded dairy product advertising is dramatically overshadowed by generic, or non-brand specific, advertising expenditures made by associations. They spent nearly $115 million on dairy product advertising, including $94 million from the American Dairy Association.

The other processed food category where cooperatives accounted for more than 2 percent of all brand advertising was in the "fats and oils" sector, where cooperatives spent $2.4 million. Land O'Lakes accounted for the lion's share of these expenditures, paying $2 million to advertise its brand of margarine.

Preferred Media for Advertising

Television has been the preferred means of advertising food products during the past 20 years. Television dominated in 1967, when the $1.6 billion food companies spent accounted for 65 percent of all their major media advertising dollars, and again in 1987, when they spent $5.8 billion, accounting for 75 percent of their major media expenditures. After television, magazines were the next most heavily used media.

Television dominates because it is considered the best-suited media for creating and maintaining product differentiation for branded food products. Firms often tie their print advertising to the same themes developed in television advertising.

Off the 10 leading agricultural cooperatives, four allocated at least 90 percent of their advertising budgets to television. Interestingly, Land O'Lakes, the fifth largest advertiser among cooperatives, allocated only 14.5 percent of its ad dollars to television. Tri-Valley Growers also bucked the trend, spending only 23.5 percent of its advertising dollars on television.

Ocean Spray spent nearly all of its media advertising dollars on television, as did Guild Winery and Blue Diamond Growers. However, in the past two years, Blue Diamond shifted to a print advertising campaign (see related story, page 23).

Food Advertising Dominated by Few

In 1987, the four largest food and tobacco advertisers accounted for 32.8 percent of all food advertising, up from 19.4 percent in 1967. Philip Morris led the pack in 1987, accounting for 13 percent of all advertising for the sector. The top 20 advertisers accounted for 72.1 percent of all food advertising in 1987, up from 53.4 percent in 1967. The 50 largest advertisers accounted for 90.6 percent of all food advertising in 1987. The leading advertisers from 1967 were still among the leaders in 1987, after accounting for mergers and name changes.

Ocean Spray was the largest cooperative advertiser in 1987, ranked 42nd among all advertisers. This single cooperative accounted for 27.7 percent of all advertising expenditures by cooperatives. Ocean Spray was also No. 1 among cooperatives for advertising in 1967, but ranked 65th among all advertisers at that time (omitting associations). Six cooperatives were among the top 100 food advertisers in 1987, up from four in 1967.

Advertising as a Ratio of Total Sales

Another way to gauge advertising levels is to calculate the ratio of advertising expenditures to total sales, or "A/S." The A/S ratios of the top 25 food and tobacco company advertisers in 1987 ranged from a low of 1.4 percent for Kraft to 13.1 percent for Wrigley. Some economists use an advertising industry benchmark that says A/S ratios which exceed 3 percent are generally excessive. Nine of the top 25 advertisers nonetheless exceeded the recommended 3 percent A/S limit. This is a conservative calculation, because only domestic advertising was included, but both domestic and international sales were used.

No cooperative exceeded a 3 percent A/S, and only two had an A/S of over 2 percent. Most were well below 1 percent. Thus, not only do cooperatives spend dramatically less on advertising than non-cooperatives, they also have lower A/S ratios. Ocean Spray was highest among cooperatives, with a at 2.6 percent A/S. By contrast, Land O'Lakes, the fifth leading cooperative advertiser, had an A/S ratio of only 0.33 percent.

Specific industries in which cooperatives account for the dominant share of advertising include cranberries and cranberry sauce, where Ocean Spray did all of the branded advertising. However, the amount spent—$116,000—was insignificant. Likewise, Sun-Diamond accounted for 100 percent of the brand advertising for prunes, spending $3.3 million. Associations spent an additional $2.8 million for generic prune advertising.

Cooperatives also dominated branded raisin advertising, with Sun-Diamond's $5.1 million accounting for 98.6 percent. Raisin industry groups paid $6.6 million for generic advertising (featuring the dancing California raisins). Cooperatives accounted for more than 90 percent of the branded advertising for tree nuts and citrus, spending about $4 million each for the two categories.

Even though some product markets were dominated by cooperative brand advertising, the amounts spent were relatively small and the advertising intensity of the industries was also small—usually less than 1 percent of sales. This indicates low levels of product differentiation. Where cooperatives did advertise their branded products heavily, associations also tended to support the industry without regard to brands.

Cooperatives often advocate association advertising as a way to ensure that non-cooperative producers pay "a fair share" to help promote their commodity. Otherwise, cooperative members feel they are sometimes made to bear the entire cost of promoting their commodity. Farmers, who may belong to a cooperative but who clearly belong to an industry, are spending greater amounts on non-brand than on brand advertising.

Association spending in 1987 included $115 million on dairy products; $30 million on meat products; $24 million on preserved fruits and vegetables and $20 million on fresh produce. For commodity markets where there are few brand names—such as beef—industry-wide campaigns are the most plausible way to advertise. Industry groups that fund these associations are supplied by large numbers of farmers, many of whom belong to more than one cooperative.

Whether these farmers are best served through advertising by an industry-wide, generic advertising campaign, or by cooperative advertising of branded products, or by a combination is the subject of a federally funded research project being overseen by Dr. Olan Forker at Cornell University.

Breakdown by Individual Markets

In their study, Willis and Rogers analyzed 60 different U.S. food industries. Twelve of these food industries had at least one cooperative among the top four sellers of branded products. Industries where cooperatives were among the leaders tended to be slightly smaller and have lower market concentration lower advertising intensities, higher levels of private-label sales and lower price-cost margins. They also tended to have a market leader which faced weaker rivals.

Looking at these 60 industries another way, cooperatives accounted for at least 3 percent of the value of shipments in 1982 for 25 of the food industries. The main difference between these 25 food industries and the 35 without a significant cooperative presence is that the latter had much higher advertising intensities. The A/S ratio for these 35 food industries was over three times higher than that for the 25 industries with a significant cooperative presence.

However, this does not prove that a strong cooperative presence will automatically lower industry advertising levels. The results are consistent with the fact that those industries where cooperatives are among the leaders have lower price-cost margins, lower concentration, and greater commodity orientation.