Adding Value to Agriculture: Branding and Certification

Margaret W. Cowee, Research Assistant, Department of Resource Economics, University of Nevada, Reno
Kynda R. Curtis, Assistant Professor and Extension Specialist, Department of Resource Economics, College of Agriculture, Biotechnology, and Natural Resources, University of Nevada, Reno

Food Industry Trends

Although total consumer food expenditures in the United States nearly doubled between 1950 and 2000, increasing at an average rate of 1.4% per year, the percentage of expenditures going to farmers and ranchers fell from 22.8% to 7.9% in that same period (Sharp and Riggs, 2003). Total farm value also declined from 1950 to 2000, in spite of increased gross raw commodity production during the same period. These figures indicate that increasing production is not necessarily a means to increasing profit for farmers and ranchers (Sharp and Riggs, 2003). Today, agricultural producers seek ways to increase profits without costly expansion, while allowing them to maintain their autonomy.

Three important recent trends in the food industry include the widening separation between agricultural producers and food consumers, higher food safety concerns, and increasing household disposable income (WEMC, 2005). The separation between producers and consumers and the concerns over food safety are closely linked. As consumers eat more food away from home and large-scale distribution in the form of chain supermarkets replaces locally owned mom-and-pop stores, there is increased anonymity between food production and preparation and the end consumer.

Due to worldwide scares over outbreaks of food-borne illnesses such as those caused by Escherichia coli (E-Coli 0:157) and Bovine Spongiform Encephalopathy (BSE, or "mad cow" disease), consumers are more concerned than ever with the safety of their food. Today, it is often difficult for consumers to determine the origin of food products. Hence, lawmakers and industry officials have called for the use of animal/premise systems, as well as country of origin labeling (COOL). Some consumers have altered purchasing patterns from buying standard products to those certified as natural, organic, or locally produced. In order for consumers to be able to identify certified products from those that are uncertified, it is essential that the certified products carry a label that states the qualifications the product has met.

The increased demand for labeled products is also a result of increased disposable income. As income rises, consumers search for food products that appeal to more than just their basic need for a safe, affordable source of calories.

Traditionally, food products have had two sets of attributes that distinguish them: these are search and experience attributes (WEMC, 2005). Search attributes, sometimes referred to as "appearance" attributes, are made up of a product’s physical presence, such as color, shape, uniformity, and smell. Search attributes can be ascertained through physical inspection of the product, by touching, smelling, or looking at the item. Not only is appearance important to consumers searching for the highest quality products, many federal grades and standards, such as U.S. Department of Agriculture (USDA) beef grades, are based solely on the physical appearance of the product.
Experience attributes can only be known once the product has been consumed, such as flavor, ripeness, and tenderness. It is essential that consumers have a positive experience with a product in order to encourage repeat purchases, a positive reputation, and growth of the consumer base. Although experience attributes cannot be fully known without consuming the product, they can be advertised through labeling or through word of mouth.

With recent increases in disposable income and the increased demand for certification, a third set of attributes has been added to the list: credence attributes. Credence attributes cannot be distinguished through appearance or consumption. They include such factors as production/processing methods, working conditions, humane animal conditions, and the environmental impact of production. The credence attributes consumers demand can be derived from production and processing methods, such as organic, natural, or pesticide-free, as well as grass-fed, free-range, or hormone-free livestock. Branding, labeling, and certification methods are ways to convey the existence of product attributes, including credence attributes, to consumers.

**Branding**

A brand is the combination of a name, words, symbol, or design that identifies the product and a company and differentiates it from the competition (Giddens et al., 2002). Branding serves as a way for consumers to quickly and easily identify one product from another and to associate them with quality attributes related to the brand name. Giddens et al. (2002) find that, in general, the number one brand in a market can maintain a 10% price premium over the number two brand, and as much as a 40% premium over the generic store brand. Additionally, the study showed that customers who are loyal to specific brands spend three to four times as much on food items than do customers who purchase items based on lowest price.

In issues of branding, it is again very important that consumers have a positive experience with the product, so that they will associate the name or brand with a high-quality, satisfying product. An association with poor or inconsistent quality can lead to the need for discounted prices. An example of positive consumer association is Certified Angus Beef. Consumers have no way of knowing if the beef they purchase has met the genetic, production, and quality standards required to become certified Angus, but they associate the label with positive experience attributes relating to taste, tenderness, and flavor (WEMC, 2005). Customers who have a positive experience with a product are likely to purchase the product again. Repeat purchases are important because not only do they lead to growth of the consumer base, but it can cost between four and six times as much to attract new customers as it does to retain current customers (Giddens et al., 2002).

**Benefits of Branding**

Companies use branding and the consumers' ability to identify brands to improve sales in four ways: to market new products, to protect market position, to broaden product offerings, and to enter new product categories. The majority of small agribusiness owners make their branding debut by repackaging their existing products under the name of their farm, ranch, organization, or business to promote brand recognition and to encourage the spread of experience attributes through word of mouth (Giddens et al., 2002). Marketing branded agribusiness products is important for several reasons. As stated previously, branded items are generally able to earn a higher price for the producer and can lead to brand loyalty, which leads to a strong customer base and the ability of the producer to better serve the needs of the market. Branding a product adds value by differentiating the product, making it stand out from the other items on the market, and by conveying additional information about the attributes of the product beyond appearance. Branding also adds value to products simply because consumers generally believe that known branded products have better quality or more attributes than unbranded products. Another merit of branding is the sense of pride or community that can be experienced by the producer from successfully creating a brand identity (Giddens et al., 2002).
Certification

Branding is a form of first-party certification, as any claims made must be approved by either the USDA- Agricultural Marketing Service or the Food and Drug Administration before they can be placed on a product's label. As producers and consumers are even more separated at the regional and national levels, quality signals are even more important than in local settings. Additionally, creating brand identity at the national level usually requires a great deal of money and a well-established reputation (WEMC, 2005). These are two of the many reasons why some producers choose to take the route of third-party certification. Third-party certification involves validation by an impartial entity that the item was produced in a manner that meets the claims which appear on the item's label. This validation usually involves audits, but may also include samples of soil or blood samples from livestock, as well as surprise inspections of the production facility. Third-party certifiers may be agents of the government or non-government agencies, religious organizations, or private agencies, though the federal government is the most common third-party certifier (WEMC, 2005).

Benefits of Certification

Producers have an economic incentive to make claims about the processes behind their products, but without outside verification, there is no assurance that these claims are true. Studies have also shown that third-party certification generates higher profits for producers through price premiums. A study by Loureiro et al. (2002) found that consumers were willing to pay a small premium for apples labeled as having met environmentally sound production processes, while Dickinson and Bailey (2002) found consumers were willing to pay a premium for certification relating to increased safety in beef and pork.

Third-party certification adds value in four ways:

- Standard setting;
- Objective testing;
- Certification of producers and processors; and
- Enforcement of certification guidelines.

Standard setting relates to the fact that a product must meet a set of guidelines in order to be approved for third-party certification. For example, this means when a consumer purchases an apple with a certified organic label, he or she knows that the apple has met the specific set of guidelines set forth for apples to be considered organic. Objective testing adds value based on the fact that third-party certifiers do not have a stake in the profitability or success of the product and so have no incentive to certify a product that does not meet specifications. Value is added through the certification of producers and processors by letting the public know that the producer or processor has met the necessary guidelines to be certified. Enforcement adds value through the consumer's knowledge that producers who make false claims or fail to meet guidelines will be reprimanded or stripped of their certification status.

How to Become Involved in Certification

It is important that a producer interested in involving his or her business in certification programs understand the risks, costs, and benefits associated with the program.

Most agricultural products require some sort of mandatory certification to ensure safety and quality. Once these certifications have been met, the producer should consider the steps necessary to certify products beyond the mandatory level. High on the list of considerations should be the goals and objectives of both the business and the family. Producers should also take into consideration the fact that entering a new program such as certification requires a different set of management skills from what traditional commodity-focused operations may use (Sharp and Riggs, 2003). Not everyone is suited to make this transition nor does everyone have the management skills required.

If the producer feels as though certification is feasible after considering goals, the next step is evaluating the market. Before entering a certification program, the producer needs to be certain of the target market and the needs of that market. Does the target market have growth potential? Are the desires of the market consistent, or are the current desires likely to change quickly? Proper research and planning can be the difference between success and failure.

Next the producer should examine the costs and benefits associated with the program. At this point it is critical that the producer have a business plan to use as a guide through the next steps. Production risk is also a major factor and will be highly
Choosing a Certification Program

Christensen et al. (2003) found that the majority of consumers in the U.S. feel they can trust assurances made by the U.S. federal government more than those made by private certifiers in issues of food safety, but place more trust in private certifiers in issues of social and environmental responsibility and animal welfare. Again, it is important that the producer have a full understanding of who is in the target market and what product attributes the target market demands and/or requires.

If third-party certification is not feasible due to constraints related to farm size, costs, or an inability to make certain changes, then the producer should give consideration to first-party certification or direct/niche marketing. This may involve creating a brand to be marketed through smaller channels, such as farmers markets. Although the producer is still subject to legal restrictions with regards to labeling, this may be a way for producers to avoid certification costs and maintain a price premium, as long as a reasonably-sized market for the product exists.

Where Can I Find Additional Information?


The University of Nevada Cooperative Extension website contains articles and information related to a variety of topics. See http://www.unce.unr.edu for additional information.

ATTRA, Appropriate Technology Transfer for Rural Areas, provides links to many articles discussing methods of sustainable agriculture and ways to promote agribusiness through sustainable agriculture. See http://www.attra.ncat.org.

The Western Extension Marketing Committee website provides information and articles relating to marketing, agriculture, and agribusiness. See http://www.ag.arizona.edu/arec/wemc.html.

References


