Mission
The Food Marketing Policy Center conducts research on food and agricultural marketing and related policy questions. It facilitates research within the land grant university system by organizing meetings and conferences, by maintaining large scale data bases and by distributing publications. The general intent is to provide information that can contribute to improved performance of the food production and marketing system. Key users include farmer and consumer organizations, agribusiness firms, public agencies, state legislatures, and the U.S. Congress.

Editors Note: This space contained an editorial cartoon that is copyrighted. Please contact the Policy Center for further information.

News Event: Public Campaign to Lower Cereal Prices Succeeds

by Ronald W. Cotterill

In the summer of 1993 Food Marketing Policy Center Research on food prices showed that cereal prices rose 71 percent from 1983 to 1991, almost double the 37 percent increase in overall food prices. This research was highlighted in a New York Times, Business Section cover page article, "Waking Up to Higher Cereal Prices" by Veronica Byrd, August 10, 1993. The ensuing deluge of phone calls from reporters and concerned citizen groups indicated that the public was acutely concerned about high breakfast cereal prices. The most interesting phone call, however, was from Anthony Hebron, Vice President for Public Relations.
at Kellogg's. Mr. Hebron requested our price information for a report to the Kellogg's board of directors on consumer dissatisfaction with high cereal prices. Thus, both sides of the ready-to-eat cereal market were sensitive to university research on the issue. A teachable moment; an opportunity to mobilize public sentiment to shift purchase patterns away from high priced cereals and to force companies to compete more directly on price was developing.

Our target audiences were other marketing economists, the news media, and ultimately consumers.

During Fall 1993 to Spring 1994 working with Policy Center Staff Andrew Franklin and Lawrence Haller, I prepared an extensive report (100 pages) on the noncompetitive pricing practices of the cereal industry. The intent was to present this paper at a symposium titled, "Profitability of Food Manufacturing" at the August 1994 annual meeting of the American Agricultural Economics Association, and to release it to the press as a source book for consumer oriented stories on high branded cereal prices and the cheaper private label cereal option. The report was never presented or released because the Phillip Morris Corporation threatened to sue us for libel if we did so. Phillip Morris reviewed this report at our request because I was serving as expert economist for the state of New York in its challenge of the Phillip Morris acquisition of Nabisco Shredded Wheat, and we wanted to be absolutely certain that only publicly available information from the case was being used. This was in fact true, but the company considered the report's analysis of harvesting and tacitly collusive pricing to be libelous and threatened to sue if we went public.

Phillip has a reputation for threatening libel suits if it thinks research and information damage its business. Their move against CBS 60 Minutes for stories on cigarettes is well known. Less well known is the threat to sue University of Wisconsin Agricultural Economics Professors Bruce Marion and Willard Mueller for libel in May 1996 if they published their study of Phillip Morris/Kraft's conduct on the National Cheese Exchange. Ultimately, with the full support of the university, state government, and a congressional hearing, the Professors released their study.

Returning to breakfast cereal our situation in the summer of 1994 clearly called for an innovative approach. We needed to find some heavyweight allies. During the fall of 1994 we repackaged the report's key points in a 24 page memo to Congressman Samuel Gejdenson (D-CT). This memo also clearly spelled out a public education strategy that might lead to lower cereal prices. Quoting from that memo:

"The truly challenging issue is how could one devise public policies or incentives that would change the industry's conduct in a fashion that would make consumers happier . . . I don't think any economist, liberal or otherwise, would suggest . . . intervention in the breakfast cereal industry.

A more effective remedy that takes advantage of market forces might be simply to generate information and publicity through hearings on the industry's performance and conduct. This industry is extremely sensitive to its public image and might very well change some of its competitive tactics towards providing lower price options for American consumers in response to such information and publicity. If consumers knew, for example, that Post spent 34 percent of its revenues for Post Grape Nuts on marketing expenses and also enjoyed a 33 percent profit sales margin in 1991, perhaps they would boycott the product (Cotterill affidavit, state of New York v. Phillip Morris, Para 40, February 5, 1993). If Congress investigated the pricing and profitability of this industry . . . the response to such publicity would be explosive." [R. W. Cotterill. Policy Memo to Samuel Gejdenson, Dec. 9, 1994, Food Marketing Policy Issue Paper No. 14.]

Based upon Food Marketing Policy Center research, Congressmen Samuel Gejdenson and Charles E. Schumer, the ranking Democrat on the House Subcommittee on Antitrust and Monopoly, agreed to attack the industry's noncompetitive conduct by
holding congressional forums, and embarking on a media campaign to inform consumers about high branded cereal prices and the lower priced private label alternative. We provided complete factual support and helped their staff write the white paper that the Congressmen released March 7, 1995 titled, "Consumers in a Box". Subsequently, I debated with cereal industry spokespersons in live TV interviews on programs including ABC Good Morning America, and the Phil Donahue Show. I also appeared with Congressman Schumer opposite industry spokespersons on ABC 20-20, and a CNBC four part documentary on cereal pricing. Hundreds of newspaper and magazine stories appeared through the nation during 1995 and 1996. The Congressmen appeared on The Today Show and other national programs.

One year later, at the request of the Congressmen, I organized a Congressional Cereal Pricing Forum. Professor Albert Kahn, Cornell University, who was the judge's economist in the New York cereal antitrust case; Professor John Connor, Department of Agricultural Economics, Purdue University; and Peter Berlinski, Editor, Private Label Magazine were invited to present papers. I also was a member of this panel.

All speakers at the Forum explained that pricing on the industry was noncompetitive and that prices were well in excess of the cost of production on most cereal brands. Contrary to industry claims, couponing did not offset the recent cereal price increases in any significant way. The papers presented are reprinted as University of Connecticut Food Marketing Policy Issue Papers No. 11 to 13. The cereal industry attended but only listened. They refused to participate in any fashion. The Congressmen issued a second white paper titled, "Consumers Still in a Box" acknowledging our assistance:

"Once again, we are indebted to the Food Marketing Policy Center at the University of Connecticut for its assistance. Center staff provided information and analysis of the industry and answered many of our questions." [Consumers Still in a Box, p. 14, March 12, 1996].

Consumers were listening to our message. They ate 145 million fewer boxes of branded cereal when compared to a year earlier. Total branded cereal volume dropped 2 percent after consistently growing 3 to 5 percent a year during earlier years in this decade. This major volume growth reversal was due to increased private label consumption (up 9%) and switching to other breakfast foods. (Gejdenson and Schumer, 1996).

Five weeks later on April 15, 1996 Post Cereals cut its cereal prices by 20 percent admitting that they had been wrong. Mark Leckie, speaking on CNBC Business Roundtable, conceded that cereals were overpriced. On the same program Congressman Gejdenson accepted that concession, praised Post for shifting to a low price strategy, and claimed victory for consumers. During the spring and early summer the other major cereal manufacturers followed with price cuts in the 10 to 20 percent range.

In summary, public policy extension of this sort is very challenging, but it has high potential pay off. To be successful it must be well timed and firmly grounded in accurate, understandable, factual analysis of a situation. Unsubstantiated claims of poor performance or speculative projections can quickly backfire. We stuck to the hard facts. The firm that threatened to sue us for libel if we publicly talked about high cereal prices and noncompetitive price practices led the shift to lower prices. The industry that ridiculed Professor Cotterill in a live debate, claiming among other things that our price calculations were "dead wrong" on ABC Good Morning America, and who called Dr. Cotterill "the nutty professor from Connecticut" in the CNBC series was ultimately forced to admit that it, not us, was wrong. In an industry with over $8.0 billion annual sales, a price cut of 10 to 20 percent translates into hundreds of millions in savings for consumers. It also makes the marketing channel more responsive thereby increasing the demand for farmers' grain.
Cooperating Researchers

Staff Changes: Everett Peterson, Associate Professor of Agricultural Economics, Virginia Polytechnic Institute and State University is on sabbatic leave at the FMPC for the 1996-1997 academic year.

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Food Marketing Policy Center Graduate Assistantships available, Fall 1997

The Food Marketing Policy Center in the Department of Agricultural and Resource Economics has two graduate assistantships available at either the M.S. or Ph.D. level. Students with interest in organization of food industries and one or more of the following: demand and price transmission analysis, comparative analysis of U.S. and European foods systems, cooperatives, industrial organization economics, or antitrust policy are encouraged to apply. Support will be for two years at M.S. and four years Ph.D. level.

For further information, please contact Ronald W. Cotterill, Director, Food Marketing Policy Center, 1376 Storrs Road, U-21, University of Connecticut, Storrs, CT 06269-4021. Tel. (860) 486-2742, Fax (860) 486-2461.

Food Marketing Policy Center on the Web

Don't forget to check out our ever expanding Policy Center Home Page at:
http://www.ucc.uconn.edu/~wwware.FMKTC.html

Included on the Home Page is information on the Center and publications. In the near future you will be able to directly download publications.

New Five Year NE-165 Project Proposal Approved

The NE-165 Regional Research Project has been approved for an additional five years of work, beginning October 1, 1996. The project's objectives are:

1. To analyze the impacts of changes in strategies, technologies, consumer behavior, and policies on the economic performance of the food system.

2. To provide economic analysis of private and public strategies in order to assess their impact on improvement in food safety and other quality attributes.

We are joined on the project by several new domestic and international researchers, bringing the total number of researchers involved to over 90. Julie Caswell is Chairperson; Ronald Cotterill is Executive Director.

NE-165 Proceedings and Working Papers Available on the Worldwide Web
We are happy to announce that new NE-165 Proceedings and Working Papers are now available on the Worldwide Web at AgEcon Search (http://agecon.lib.umn.edu/ne165.html). For easy access, publications may be printed directly from this site. Currently available are the 12 chapters of The Economics of Reducing Health Risk from Food, Working Paper #43 Using Informational Labeling to Influence the Market for Quality in Food Products by Julie Caswell and Eliza Mojduszka and Working Paper #44 Market Competition and Metropolitan-Area Grocery Prices by James K. Binkley and John M. Connor. Future publications will be posted at this site as they become available.

Conference Announcement

"Vertical Relationships and Coordination in the Food System." Sacred Heart Catholic University, Piacenza, Italy, June 12-13, 1997. This conference will be a forum for U.S. and European agricultural economists. The conference planning committee is John Connor (Purdue), Giovanni Galizzi (S.H. Catholic), Raul Green (INRA, France), Emilio Pagoulatos (Connecticut), Bruce Traill (Reading) and Luciano Venturini (S.H. Catholic). For a conference program and information contact:

Stefano Boccaletti or Daniele Moro at Phone 39-523-599225, FAX 39-523-599282 or E-mail sbocca@pc.unicatt.it.

March/April 1997 Issue of Agribusiness

Jim Beierlein, Editor of Agribusiness, invited Ron to serve as guest co-editor. The issue is dedicated to papers from the 1995 conference "Food Retailer-Manufacturer Competitive Relationships in the US and UK". Twelve papers were reviewed and ten were accepted. The papers are interdisciplinary with economic geographers as well as agricultural economists contributing. Authors are from Canada, France, Italy, the U.S. and the U.K. The comparative, transatlantic approach of this issue provides insights that can leverage strategy and policy changes in individual countries, including the U.S.

Activity Report

Julie Caswell
(University of Massachusetts)

Julie Caswell taught a 2-week graduate course on the Economics of Food Safety at the Instituto di Economia Agro-Alimentare at the Universita Cattolica del Sacro Cuore, Piacenza, Italy. The course focused on companies' incentives to provide high quality, safe foods; the role of government in assuring food quality; and the likely effects of new international trade agreements on food safety. The class was attended by Master's degree students and assistant professors.

Julie Caswell and Eliza Mojduszka presented a Principal Paper titled, "Using Informational Labeling to Influence the Market for Quality in Food Products" at the July 1996 Meeting of the American Agricultural Economics Association in San Antonio, Texas.

Julie Caswell presented a series of three invited seminars presented at Utah State University from July 22-25, 1996. They included a campus-wide seminar on Trends in Food Manufacturing: Changes in Structure and the Role of Quality Assurance and two seminars in the Department of Economics on Regulating Food Quality in an Era of Freer International Trade and Using Informational Labeling to Influence the Market for Quality in Food Products.

Ronald W. Cotterill
(University of Connecticut)


Ron delivered a seminar at the November 1996 meeting of NE-165, in Orlando titled, "An Overview of Brand Modeling Approaches to the Measurement of Market Power."

Ron was appointed by the President Pro-Tem of the Connecticut Senate to serve as Co-chair with Representative Jefferson Davis (D-Pomfret) of the legislative task force to reorganize and expand the Connecticut Department of Agriculture.

Ron assisted the Federal Trade Commission and the Attorneys General of Connecticut, Massachusetts, and Rhode Island in identifying local market areas and stores that Stop & Shop-Ahold/Edwards were required to divest in order to preserve competition. This effort also included selecting buyers, from several bidders, for the 30 divested stores, which represent over $625 million in sales annually.

Ron appeared in June on Channel 60, WVIT News Hartford with Congressman Samuel Gejdenson and Linda Golodner, President, National Consumers Federation to explain the impact of recent cereal price reductions on consumers. Ron assisted PBS' Jim Lehrer News Hour team and the Boston affiliate in their in-depth story on monopoly and pricing in the cereal industry.

Ron was a guest on a CNBC mid-day news program, Power Lunch, along with Nicolas Pyle of Independent Bakers' Association, November 8, 1996. The subject was slotting fees.


Michael Lubatkin
(University of Connecticut)

Michael continues work on the strategic motives for merger in food industries.

Everett Peterson
(Virginia Polytechnic Institute and State University)

Everett Peterson is working with the staff at the FMPC in two main areas: to develop industry-level demand elasticity estimates for the processed food products in the IRI data base, and to extend previous work at the FMPC on estimating brand-level demand elasticities and tests of market power.

William Putsis
(Yale University)

Bill is working on a project with Ravi Dhar (Yale) and Ron on private label modeling strategies in food industries.

Bill presented a seminar titled, "On the Competitive Interaction Between Private Label and Branded Grocery Products: Market Power, Promotion and Local Market Effects" at Washington University, September 18, 1996; Boston University, October 4, 1996; London Business School, October 7, 1996; and Yale University, October 16, 1996.

Bill presented a seminar titled, "The Strategic Interaction Between Private Label and Branded Grocery Products" at the Northeast Marketing Consortium, MIT, September 27, 1996.

Richard Rogers  
*(University of Massachusetts)*

Richard chaired the Selected Papers and Symposium Committee of the Northeastern Agricultural and Resource Economics Association for their annual meeting, which was held in June in Atlantic City, New Jersey.

Richard and Jeffrey Royer, University of Nebraska, continue to put together a book from the project's June 1995 conference on "Vertical Coordination in the Food System". The accepted papers have been revised (minus a couple of authors) and we are searching for a publisher.

Richard has a new research project starting on Optimal Advertising Intensity for Agricultural Marketing Cooperatives. The work will be funded in part by a grant received by Rogers and Richard Sexton (UC Davis) from the Center for Cooperatives at the University of California-Davis. Richard is collaborating with Andy Jermolowicz at USDA/Cooperative Marketing Division on a survey to request needed data from cooperatives that market branded products.

Kathy Segerson  
*(University of Connecticut)*

Kathy continues work on legal economic models of regulation and liability.

Thomas E. Steahr  
*(University of Connecticut)*

Tom continues work on the demographic aspects of food safety, but is focusing most current efforts on analysis of poverty. This work relates to food access issues.

Visiting Scholars

Mr. Aviv Nevo, a Ph.D. candidate in economics at Harvard University, is a visiting scholar at the Food Marketing Policy Center. He presented papers at the June NE-165 conference and a November NBER workshop on measuring market power in the cereal industry. He also is working with Li-Yu Ma and Ron Cotterill on a paper that will compare alternative models.

Professor Neil Wrigley, Head, Dept. of Geography, University of Southampton and Visiting Fellow St. Peter's College, Oxford, visited the FMPC and toured Connecticut supermarkets as part of research field work on Sainsbury's entry (Shaw's and Giant) into the U.S. You can read Neil's thoughts in his article in the March/April 1997 *Agribusiness* issue.

**Data Corner**

**Recent acquisitions include:**

*Progressive Grocer's, 1997 Marketing Guidebook.*


*Food Institute Report 1996 Food Marketing Review.*

Contact Andrew Franklin (860) 486-2823 for a complete listing of data and reference works available.

**Food Marketing Policy Center Publications Catalog**

We have updated the list of the publications that are available through the Center. Call (860) 486-1927, write for a copy, or download it from our Home Page: http://www.ucc.uconn.edu/~wwware.FMKTC.html

**Recent Publications and Papers**


Rogers, Richard and Dennis West, "Livestock Production and Meat Processing in Western Massachusetts-A Survey." Contract report to the Community Involved in Sustainable Agriculture (CISA).

