A New Brand of Agriculture? Farmer-Owned Brands Reward Innovation

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Commodity agriculture as currently practiced in the U.S. Midwest is an extremely efficient way of organizing production and distribution. It allows for inexpensive production and bulk transfer of huge quantities of meat and grain and has resulted in enormous cost savings to U.S. and international consumers. This system has evolved in accordance with market forces, and we expect that these same forces will allow the current system to survive for decades.

There are aspects of the system, however, that are not desirable. For example, the commingling that occurs to take advantage of bulk handling means that signals cannot be sent from consumers to producers. Consumers might desire food products that are different from the commodity standard and they might be willing to pay a premium, but the farmer does not get this signal.

In addition, competitive pressures mean farm operations must grow larger to reduce costs. As farms have grown larger, governments throughout the world have attempted to slow the process in order to ease the transition for those who are forced out of farming and to prop up rural communities. These government “protections” distort markets and can lead to international tensions, as each country defends its own interventions.

Farm groups have attempted to address these issues by working together to build value-added processing facilities such as ethanol plants and to create niche products to satisfy the desire of some consumers for variety. However, whenever these efforts are successful, they are quickly imitated, and profit margins get smaller and smaller.

A third possible solution has recently begun to emerge that meets consumers’ desire for variety and quality and allows farmers to retain profit margins for long periods. This solution would allow some smaller operations to remain in business. The solution does require cooperation between producers and government, but it also relies upon market forces. In essence, the solution is to allow farmers to own their own brands and to control production of branded quantities, much as already occurs in other sectors of the economy. The phrase used in the European Union to describe this concept usually refers to either a “guarantee of origin” or a “guarantee of production process.” (In the United States, the description will include a reference to a federal marketing order.) Neither of these phrases really captures the essence of the concept. Instead, we refer to this solution as a “farmer-owned brand.”

**The Economics of Farmer-Owned Brands**

Some consumers are willing to pay premium prices for differentiated products, and these premiums can occasionally result in niche markets such as those that exist for organic products and local farmers markets. These consumers are essential for a successful farmer-owned brand. But producers in traditional niche markets do not attempt to control supply (that is, prevent imitation); therefore, profits for producers of organic and local products will follow the pattern described for commodity products. To be successful, branding also requires producer control over the quantity supplied, and this is the key difference between farmer-owned brands and organic products or farmers markets.

In order to assert supply control without violating price-fixing rules, farmer-owned brands must be based on some fixed attribute. For example, a particular brand might specify that the product can only come from a select area and justify this restriction based on the specific attributes of the region. Another legal way to control supply would be to limit membership in the producer group to a relatively small number of high-quality producers (or to severely restrict admission into the group). A third way would be to impose strict (for example, environmentally friendly) production and/or quality standards, possibly allowing for some flexibility over time to accommodate changes in market circumstances. A fourth way is to require the farmer-owned product to use some ingredient or process for which the producer group can control access, either through intellectual property rights or through trade secrets.

In all cases, a successful product will become a temptation for imitators from outside the original
group and will generate attempts by
members of the group to expand
their individual output. If these pres-

ures result in an expansion of sup-
ply, the brand will fail. The most ob-
vious way to restrict this type of
supply expansion is to use regulations
to protect the property rights of
those who own the brand. These
regulations might be the same as
those used to protect branded prod-
ucts in other sectors, with the crucial
exception that they must also have
the power to restrict additional pro-
duction from within the group—an
issue that is not faced by corporate
brand owners. With this ability to re-
strict production comes freedom
from the boom-bust price cycles as-
associated with commodity markets.

Farmer owners will capture the
benefit associated with product im-
provements; consequently, they can
be expected to pay close attention
to quality. Notice how the incentive
structure for a farmer-owned brand
would differ from that in a commod-
ity system. Farmer owners would
value the brand name and would
therefore want to maintain high
quality standards throughout the
association. Further, farmers would
be rewarded for innovation both in
production and in marketing.

THE SITUATION IN EUROPE
The problems associated with agri-
cultural commodities described
earlier are in many ways of greater
relevance in the European Union.
Europeans tend to live closer to
farm areas and they are therefore
more concerned about rural vitality.
Also, there is a long tradition of re-
gional production methods, and the
most successful of these are liable
to be copied. Finally, E.U. agricul-
ture is currently evolving from one
based on price supports to one
based on income support. This has
put enormous cost pressure on
farms, which, if left alone, would
result in a rapid commodification
of many food products.

All of the above has created a
great amount of interest in the pro-
cess of branding in the European
Union. Dozens of individual centers
are currently working on the issue,
and several hundred new brands are
introduced each year. The emphasis
on selling the brand concept to con-
sumers and policymakers is key to
finding ways around European price-
fixing laws, and any positive impact
on farm profitability is therefore
viewed as a by-product of the more
important goal of protecting the food
supply. Nevertheless, the programs
work and operate exactly as they
might be expected to if they were set
up to maximize farm profitability. Two
of the more successful cases that we
encountered on a recent study tour in
Europe are Brunello di Montalcino
and Parma Ham.

BRUNELLO DI MONTALCINO
Montalcino is a small, saucer-shaped
valley in Tuscany that is said to be an
ideal location for growing Sangiovese
grapes (called “Brunello” in
Montalcino). Producers in this area
have formed an association that owns
the brand called Brunello di
Montalcino, and this association lim-
its the quantity of grapes grown under
this brand name. Individual vineyards
have their own labels, but most of the
marketing and promotion of the brand
is done by the producer-owned asso-
ciation (about 60 percent of the
association’s budget is spent on pro-
motion). This makes a lot of economic
sense, as some of the surviving vine-
yards harvest less than two acres.

The association also suggests a mini-
imum price for wine bearing the
Brunello di Montalcino brand name.
Individual vineyards are free to charge
more than this suggested minimum,
and virtually all of them do.

Importantly, the production area
is set by the association and is rarely
changed. The association also limits
the yield of grapes and the yield of
wine from grapes (to maximums of
3.2 tons per acre and 68 percent, re-
spectively). Production of Brunello
di Montalcino is further restricted by
other means, such as prohibiting irri-
gation. The strict rules underlying
this brand are enforced using sup-
port from federal and state authori-
ties. Attempts to use this name
outside of the European Union would
be opposed by the European Union
in international regulatory groups
such as the World Trade Organiza-
tion. Vineyards that are eligible to
use the Brunello di Montalcino
brand command large premiums.

PARMA HAM
A second successful E.U. example is
“Prosciutto di Parma” or “Parma
Ham,” a dry-cured ham produced in
the Parma region of Italy. This
brand is owned by a group of ham
processors rather than by hog farm-
ers. They maintain control over pro-
duction using a regulation that
specifies that all ham bearing this
brand be cured in a very small area
just south of the city of Parma. The
argument used to justify this restric-
tion is that this region has been
used to dry-cure ham since at least
the times of the Roman Empire, be-
cause its weather is ideally suited
for that process. The wind blows
into this region from nearby moun-
tains and these climatic conditions
are said to give hams a unique fla-
vor. This is the rationale for requir-
ing that processing facilities have
windows facing the mountains to
allow this “special” air through the
units. Interestingly, however, with
modern climate control these win-
dows are seldom (if ever) used.

Another requirement of the
“Prosciutto di Parma” brand is that
the ham be produced from a pig
raised in certain regions in the
north of Italy. Further, only tradi-
tional Italian breeds such as Italian

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Landrace or Italian Large White are allowed. This creates the possibility that some of the success of the program might be transferred to Italian hog producers. Figure 1 compares hog prices for several countries. Italian hog prices have averaged $7.44 per hundred pounds higher than German hogs over this period. In this case, there is no evidence that Italian hog producers can profit from the existence of the “Prosciutto di Parma” brand because there is no restriction on the number of hogs that are grown in Italy. However, the higher prices observed in Italian hog production have probably allowed the Italian hog industry to survive in the absence of trade protections from less expensive E.U. producers in the Netherlands, Ireland, and Denmark.

The Brunello di Montalcino and Prosciutto di Parma brands are only a tiny fraction of those that have succeeded in the European Union.

An Example of a Successful U.S. Farmer-Owned Brand
Farmer-owned brands are relatively rare in the United States. One successful brand involves Vidalia onions, a registered trademark of the Georgia Department of Agriculture. Vidalia onions are grown only by a group of authorized farmers in the region around Vidalia in the South of Georgia (see “Why Can’t Vidalia Onions Be Grown in Iowa? Developing A Branded Agricultural Product” by Roxanne Clemens, MATRIC Briefing Paper 02-MBP 3, available at www.matric.iastate.edu). The farmers use a trademark and a federal marketing order to restrict marketing and production of these particular sweet onions.

Can the Midwest Jump on the Bandwagon?
It seems highly unlikely that the Midwest will ever create a brand of extra virgin soybean oil given current consumer preferences and production practices. But other products seem ideal for branding. For example, the Japanese beef consumer has discovered that beef originating from packing plants located along Interstate 80 has a better flavor than other U.S. beef. This is probably true because midwestern beef is typically produced from calves that are grain fed for as long as six months. Beef from other U.S. regions is typically older and less tender than the midwestern product and comes from calves fed for much shorter periods. As a result, Japanese consumers have now begun to request “I-80 beef,” a brand that does not yet exist. It should be possible for a group of cattle feeders to find a suitable location for the production of this type of beef and justify why beef from this location has some special characteristics. A key element in this brand would be that state and federal regulators would agree to step in to protect this brand from overproduction from within the group and from outside competition. This latter feature has not been evident in the attempts seen with this type of product to date.

In the same way, in each county, producers could probably describe a unique way to make ice cream, cheese, sausage, or ham, or unique ways to feed and process pigs, cattle, chickens, or turkeys. These products are more likely to succeed if there is a genuine flavor difference such as might exist with range-fed poultry. Other possible brands might be based on production practices that use science to improve flavor and tenderness.

Whatever the innovation, the cases we’ve studied in Europe may be harbingers of a new strategy for American farmers to make the most of the unique characteristics of their products in the marketplace.

Criteria for Successful Differentiation of an Agricultural Product

- Product must transmit price signals from consumers to producers.
- Product must achieve a scale of production sufficiently large to justify the costs of creating and maintaining the differentiated image among consumers.
- Imitation of the product must be prevented.
- Method of supply control must not violate laws against price fixing.