Altering the demand for a commodity to conform to productive capacity is a popular approach in some segments of perennial-crop industries. To the extent that it is possible to expand demand after orchard acreage has been raised to bearing age, this approach may reduce somewhat the need for accurate information before planting on long-run market conditions. Planting decisions may be based more on past prices, productive abilities, and preferences of the grower-investors. Information is still needed regarding factors such as the extent to which demand for the commodity can be expanded and the cost of demand expansion.

Commodity promotion and advertising are usually expanded as grower acreage and productive capacity increases. Since financing is usually by grower assessment per ton, larger budgets for demand expansion are often automatically generated by increasing production. Commodity industries with increasing supplies will also frequently vote for increased assessments per ton to further step-up the demand expansion budget. Thus promotional demand-expansion programs can be used in an attempt to balance increasing supplies from previously expanded plantings.

Some tree-fruit industries have been successful in using demand expansion to substantially balance an increasing production. Examples of success in expanding long-run demand to correspond to expanding productive capacity include the Florida orange juice industry and more recently fresh sweet cherries in Washington.

A major shortcoming of this commodity demand expansion alternative as a coordinating mechanism is that it often does not work sufficiently as a sole approach. There seem to be certain limits beyond which demand for some commodities cannot be expanded—both in the U.S. and in export markets. An evaluation of the specific potential for long-run market demand expansion is needed in each commodity case.

Commodity demand expansion is especially challenging in the U.S. today because the commodity programs must compete effectively with very large advertising budgets and effective market expansion efforts of large conglomerates and food marketing firms with strong consumer brand positions. This is
especially important in regard to national television advertising. Consumer advertising on television is highly effective in demand expansion with U.S. consumers. It is considered one of the most effective demand expansion tools for branded food products sold through retail grocery stores. It is also becoming increasingly important for restaurant chains.

To compete effectively with national television advertising requires very large advertising expenditures. The ability to do this is increasingly concentrated in the hands of a few large firms.

To compete in the important national television advertising market, a commodity industry must either be large enough to compete with the big firms, or effectively convince the large brand-owning firms to use their advertising dollars to push the commodity of that industry. Few commodity industries are large enough themselves to compete effectively on national television with the few giant advertiser firms. Therefore, most commodity industries must combine advertising with a system to tie-in with the large food advertisers. This is especially so for processed foods and commodities used in manufactured or convenience foods (compared to fresh produce).

The fresh sweet cherry and apple industries in the State of Washington demonstrate that success may be possible with commodity demand expansion under certain conditions—despite the difficulties for commodities to compete effectively with national television advertising. These industries have significantly expanded their sales of fresh fruit in recent years to correspond with their expanding orchard productive capacity. (Although these industries have had effective demand expansion programs, they do not rely primarily upon national television advertising.)

The success of some industries in using a demand-expansion approach indicates that it is a possible alternative to be explored by commodity industries as a long-run supply and demand balancing mechanism. The limitations of commodity demand expansion mean, however, that this approach cannot be relied upon as the only balancing mechanism for many commodity industries.

Advantages

- Demand expansion involves an industry growth approach in contrast to supply limitation.

- This approach fits well with the commonly held value of many people toward growth and expansion as "positive."

- A successful demand-expansion program may provide increasing opportunities for packer-shippers, processors, and other marketing firms.

- This approach can facilitate growth of an industry of sufficient size to stimulate development of specialized marketing firms, specialized grower inputs, and new technology.

- Consumers are provided with larger supplies of certain food commodities.
If successful, this approach can provide increasing market and investment opportunities for growers.

Successful demand expansion can reduce risks for grower investments.

Disadvantages

- Demand for a commodity cannot always be expanded sufficiently to offset highly productive U.S. farmers.

  -- Successful demand expansion depends increasingly on food firm decision makers who are basically not commodity-oriented.

  -- National television advertising is very effective but very expensive—almost prohibitively expensive for most commodity groups.

  -- Consumer prices and demand are influenced increasingly by the nonfarm aspects (including costs) of retail food products.

- Demand expansion can encourage growers to expect too much from a demand program with little attention given to adjusting industry productive capacity.

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This publication is one of a series on "Coordination of Long-run Supply and Demand for Perennial Crops." Leaflets in this series include:

#1 AN OVERVIEW
#2 GROWER ACREAGES INFLUENCED BY PRICES RECEIVED
#3 GROWER COOPERATIVES
#4 COOPERATIVE-CORPORATION JOINT VENTURES
#5 COMMODITY DEMAND EXPANSION
#6 MARKETING ORDERS
#7 LONG-TERM CONTRACTS AND FORWARD DELIVERABLE CONTRACT MARKET
#8 GOVERNMENT PAYMENTS FOR ACREAGE REMOVALS