

Branding Value-Added With Geography

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The United States allows firms to apply for a type of trademark, called a certification mark, that enables a product to be labeled as being produced within a certain geographic region. For example, the Wisconsin Milk Marketing Board, Inc. (<http://producer.wisdairy.com/default.asp>) has a certification mark that enables cheese produced within the state to be labeled as Wisconsin Real Cheese. The California Date Commission (http://www.cdfa.ca.gov/mkt/mkt/ol_date.html) owns the certification mark for Dried and True Dried Plums from California. The Hawaii Department of Agriculture (<http://www.hawaiiag.org/hdoa/pdf/qad-coffeebrochure.pdf>) owns the certification mark for 100% Kona Coffee, 100% Oahu Coffee, 100% Molokai Coffee, 100% Maui Coffee, 100% Kauai Coffee, and 100% Hawaii Coffee. These certification marks are trademarked by federal laws and indicate that these agricultural products can only be produced within the geographic boundaries of these regions.

Individual states also have registered trademarks. For example, the state of Georgia has allowed the Georgia Department of Agriculture to trademark “Vidalia,” which is used on onions that are produced within 20 counties in Georgia (http://www.agr.state.ga.us/html/vidalia_onions.html). Vidalia onions are a type of onion that is sweeter than most onions and is grown only in these counties.

Products such as bologna, feta cheese, and champagne have not been trademarked even though these terms apply to foods that are associated with a certain geographic region. Recently, the European Union (EU) has asked the World Trade Organization to consider a proposal to provide protection for products that come from certain geographic regions (e.g. Geographic Indications). The proposal would enable producers to establish protection for high quality products that are associated with a certain geographic region. The EU argues that such protection will enable producers to move from a commodity agricultural system to a system with more differentiation based on high quality products. The products for which it has asked for protection include 41 different wines (i.e., Bordeaux, Chablis, Champagne, etc.), cheeses (i.e., Asiago, Feta, Roquefort, etc.), hams (e.g., Prosciutto di Parma etc.), and meat sausage (e.g., Mortadella Bologna).

Food processors and wineries in the United States produce products using many of these names that have been considered “generic” because they have never been trademarked previously. For example, Kraft Foods manufactures Parmesan cheese that is named after Parmigiano Reggiano, which is one of the 41 products for which the EU has sought protection.

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The creation of a property right based on geography has several benefits. First, it enables producers to control supply which has obvious advantages. A second benefit is that it enables groups of producers within the region to collectively decide how to improve the quality or process under which the food is manufactured. A third benefit is that the producers learn how to produce and market a highly differentiated product that could be extended to other products. Many of these 41 products have been developed due to unique climate conditions that led to certain production practices that led to unique foods being associated with that particular geographic region.

Differentiation of food products is not an easy task. Most research on product differentiation in food shows that consumers consider differentiation in many different ways. For example, verification of the process under which the food was manufactured is one dimension of quality. Similarly, the level of risk that consumers perceive one product has versus another with regard to food safety is another dimension of quality. However, these types of differentiation have little price premiums in most markets. Organic production is often used as one form of differentiation. However, the cost of producing organic food is higher and it is difficult to know whether there is actually a price premium.

Table 1 shows one common way that products could be classified as commodity products or differentiated products. The upper left box (Cost Advantage, Commodity-type Products) characterizes agricultural production in most countries. The bottom right hand box (Benefit Advantage, Consumer-type products) is where countries seek to produce products that are trademarked with Geographic Indications. There are many examples of food products that lie within this category. Babcock and Clemens report that chilled New Zealand lamb, France's Label Rouge poultry, and Japan's Wagyu beef have price premiums greater than 20 percent.

Countries such as Italy and France are actively seeking to establish high quality foods with certain property rights based on geographic indications. Most U.S. certification marks are too broad and are not based on products with clear differentiation (e.g., taste difference, unique production practice). Consequently, such price premiums do not exist for these products.

Differentiation is difficult for many producers. Segregation is not easy in an agricultural system designed for commodity-type products. The inability to control supply coupled with many producers with different costs means that it is difficult for a single producer to receive a price premium for any length of time. Producers do not have a unique enough production practice or unique enough inputs such that consumers are willing to pay more for a differentiated product.

If U.S. producers are going to benefit from a differentiated product, it is likely that a clearly defined property right in the form of a trademark (e.g., geographic indications) is going to be needed and economic resources will be needed to establish a clearly differentiated product whose value is recognized by consumers.

Table 1. Different Ways of Considering Marketing Products

| | | <u>Type of Advantage</u> | |
|-----------------------------------|--|--|---|
| | | Cost Advantage (lower costs relative to the competition) | Benefit advantage (higher benefits relative to the competition) |
| Firm's Price Elasticity of Demand | High price elasticity of demand Commodity-type products | Modest price cuts gain large market share Exploit advantage through higher market share Strategy is to be able to have lower marginal costs and gain market share | Modest price hikes lose lots of market share Exploit advantage through higher market share than competitors Strategy is to maintain price parity with competitors and let the benefits drive market share increases |
| | Low price elasticity of demand Consumer-type products | Big price cuts gain little market share Exploit advantage through higher profit margins Strategy is to maintain price parity with competitors and let lower costs drive higher margins | Big price hikes lose little market share Exploit advantage through higher profit margins Strategy is to charge a price premium relative to competitors |

Source: Economics of Strategy, Chapter 12, page 416.

For more information on this topic, please see:

Babcock, B.A. and R. Clemens. "Geographic Indications and Property Rights: Protecting Value-Added Agricultural Products." MATRIC Briefing Paper 04-MBP 7 Center for Agricultural and Rural Development, Iowa State University, Ames, IA, 2004.

Hayes, D.J., S.H. Lence, and A. Stoppa. "Farmer-Owned Brands." Briefing Paper 02-BP 39. Center for Agricultural and Rural Development, Iowa State University, Ames, IA, 2003.