



**CATPRN**

Canadian Agricultural Trade Policy Research Network

# **INTERNATIONAL PRODUCT DIFFERENTIATION THROUGH A COUNTRY BRAND: AN ECONOMIC ANALYSIS OF NATIONAL BRANDING AS A MARKETING STRATEGY FOR AGRICULTURAL PRODUCTS**

**CATPRN Trade Policy Brief 2008-05  
April 2008**

**Brian G. Innes**  
M.Sc. Candidate

**William A. Kerr**  
Van Vliet Professor

**Jill E. Hobbs**  
Professor and Head

Department of Bioresource Policy, Business & Economics  
University of Saskatchewan, Saskatoon, Canada

**<http://www.catrade.org>**

Trade Policy Briefs are short summaries of studies funded by the CATPRN. As such, the briefs omit many of the details and all of the references contained in the longer reports. This brief is based on CATPRN Commissioned Paper 2007-05. The CATPRN is funded by Agriculture and Agri-Food Canada but the views expressed in this paper are those of the authors and should not be attributed to the funding agency.

## **1. Background**

Trade policy initiatives of developed country governments are in flux as a result of the increasing restrictions imposed by international trade agreements. As the proportion of agri-food trade comprised of commodities declines, new initiatives in domestic trade policy are rooted in the trend away from trade in agricultural commodities and toward trade in more differentiated agricultural and food products. This ongoing shift has increased government interest in incorporating differentiation and promotion strategies in their trade policies. Product differentiation and agri-food product promotion strategies range from geographic indicators in the European Union to country branding programs being implemented or given serious consideration in countries as diverse as New Zealand, Kyrgyzstan, Ecuador and Canada.

Given the increasing interest in country branding as a trade enhancement strategy, the commissioned paper that accompanies this Policy Brief examines the role of an effective branding strategy in the global marketplace. It focuses on the implications of economic theory for a country branding program that applies a brand/logo to products.

A clear distinction between brands and labels is central to our work. A label simply identifies a specific product characteristic pertaining only and precisely to the product itself (such as origin or composition); whereas a brand is a broader concept that captures a product's characteristics, its reputation, and the accumulated customer experience with that brand name and symbol that is viewed on the product at the customer's point of purchase. In other words, we consider that a well functioning brand is more than simply the creation of an image in the minds of consumers. Consequently, demand for a product may be affected if the brand influences - either positively or negatively –the product's perceived quality.

## **2. Country Brands for Export Promotion**

The goals of any promotion program can be distilled to increasing the quantity sold, profiting more from a fixed quantity of sales via higher prices, or some combination of the two. The success of a country brand in accomplishing these goals depends upon whether there are barriers to entry that restrict the use of the brand. The only opportunity to increase quantity sold and price concurrently occurs when the number of firms or the supply of products using the brand are limited – because any profits arising from the existence of the brand will be eroded through entry.

Origin brands have been successful promotion tools when they provide a complementary quality signal to the manufacturer's own brand. If a country brand can credibly signal a positive product attribute complementing the exporting firm's own private brand, then it could be a valuable tool used by a government to

promote their agri-food industry. European geographic labels have been shown to add value to private brands by providing complementary quality signals. Each label represents unique characteristics; the geographic indication represents organoleptic quality and the private brand homogeneity. Evidently, an exporter will only use the brand if it contributes value to their product and enhances its marketability. What challenges need to be managed to ensure that a country brand can be an effective tool for agri-food exporters?

### **3. Challenges with a Country Brand**

Using a country brand that builds on the collective reputation of a country, its citizens, and other products using the brand makes managing it considerably more challenging than managing a traditional private brand. Firstly, a country brand is impacted by factors beyond the control of the licensor or its users. These factors include consumers' preconceptions of what the country represents and the country's international reputation more generally. Secondly, applying a brand to a multitude of different products makes managing even relatively straightforward facets of the brand such as product quality and consistency a major challenge. For a country branding program to assist in expanding exports, foreign consumers must have a positive image of the country and the other products that use the brand.

### **4. Anticipating Supply and Demand Side Pressures**

Using a two-stage decision model, the Commissioned Paper outlines how positive brand equity is essential for exporting firms to effectively use the country brand. Brands must both deliver brand value from the supply side and create brand value on the demand side to be successful. Though not independent of one another, the demand/supply distinction highlights that brand equity is contingent on both the actions of firms who have chosen to use the brand and also the actions of those parties exogenous to the branding strategy.

#### *Supply Side Pressures*

On the supply side, maintaining consistent quality products and ensuring that branded products reflect the brand's image are essential for the brand to be a credible quality signal. That is, a brand associated with consistent products is better than one associated with inconsistent products; a brand known for high quality products is better than one associated with low quality products and so on. This is also known as vertical quality differentiation. Avoiding a credibility gap that will occur when production practices are incongruent with a brand's image for example, is an important concern because a profit-maximizing firm will have little incentive to follow costly production practices consistent with the brand image if they are not required to do so. The ability for a brand to represent quality and consistency that vertically differentiates products using the brand thus

critically depends on the users of the brand uniformly delivering this quality and consistency.

If there is no mechanism to ensure that only consistently high quality products upholding the brand's integrity are permitted to use the brand, then the overall vertical quality represented by the brand, and consequentially the brand's equity, will decline. In addition to firms not wanting to use a collective co-brand that represents a lower quality than their own, firms would also have little incentive to improve the quality of their products in a collective organization. In collective organizations, such as geographic indications, the costs for quality improvement fall on the individual but the benefits accrue to the entire group; thus producers of high quality products are penalized by the collective nature of the brand. In the absence of quality monitoring, not only would the brand attract those producing poor quality products, but it would also not reward those producers who add value to the brand. Thus a classic free-rider problem emerges: some firms benefit from the investments of others with little or no contribution of their own. Simply, a brand will only deliver increased demand if products that use the brand are consistent with each other and with the expectations created through advertising or other promotional activities.

#### *Demand Side Pressures*

In contrast to the supply side pressures that relate to vertical quality factors affecting brand equity, the position of one country's brand relative to other countries' brands in the international marketplace can be thought of as horizontal differentiation. This means that certain country brands will appeal more to certain consumers. Owing to the dynamic character of the global marketplace, a brand can only be differentiated and generate brand equity in the long-term if the characteristics that it represents are different from those of its competitors.

Using a horizontal differentiation model, the impact on market share of discrete consumer choice between two countries' products is modelled. If the country brand can establish brand equity in the international market, the simplified two-country case indicates that the long-term success of the brand depends on the uniqueness of the brand attributes. If the attributes were not unique then other countries with similar attributes would try to mimic the brand with a country brand of their own. Realistically, a branded product is never truly unique and is subject to imitation by others if the brand establishes a positive level of equity. The important prediction of this model is that international competition will reduce the market share achieved by a successful country brand when other countries' brands diminish its uniqueness.

The quality and consistency of products using the brand and the presence of competing country brands will both affect the level of a country brand's equity. How much brand equity remains as a result of these supply and demand pressures is important, as the value of the brand must be greater than the costs

of establishing and managing it for the country branding program to be a worthwhile exercise.

## **5. Managing a Country Brand**

For country brands to be successful in the long-term, users of the country brand must contribute to the brand's equity. Knowing that firms will have a tendency to free-ride on the efforts of other firms, brand equity is unlikely to be sustained in the long-term without an appropriate system of quality assurance.

An appropriate level of quality assurance needs to reflect the claims made by the brand to ensure that monitoring and enforcement is proportional to the potential benefits of compliance. The underlying tenet of the optimal choice of quality assurance mechanism is that firms will "cheat" the assurance mechanism to the point where the marginal cost of the expected penalty is equal to the marginal benefit of marketing a low quality product with the brand. Thus, the optimal assurance system will ensure that non-compliance costs for the individual members appropriately reflect the resulting loss in brand equity. The goal of a quality assurance system for a country brand would be to ensure that firms and products using the brand are consistent with the image communicated.

## **6. Potential for Other Countries to Restrict Country Branding**

Costs incurred with a country branding program are small relative to production and thus do not seem at odds with the existing Uruguay Round Agreement on Agriculture. As long as branding expenditures are considered "widely available" then they would likely fall under the current *de minimus* allowance for subsidies and would not be subject to countervail. If a branding program was not deemed "widely available" owing to its focus on agri-food exports, then it would likely be classified as a specific subsidy subject to agreed upon restrictions and reductions. Considering the size of a country's agricultural production, it is unlikely that a branding program will represent more than five percent of the product's total cost and thus it will not be either actionable or subject to agreed-upon reductions. If the current Doha Round proposals to reduce *de minimus* are agreed, then subsidies for branding may be open to the complaints of trading partners.

Restricting or copying product claims, logos, and trademarks associated with a particular country's brand by competing countries is also a concern. According to the existing GATT agreement, an international competitor would be prevented from misrepresenting a product's country of origin. Protection as a geographic indication under the TRIPS agreement, however, is contingent on proving a connection between the quality the brand represents and the *terroir* of the country – something that would be difficult to prove for most countries. Protecting country brands and their trademarks would inevitably be subject to the same need for country specific legal protection from competitors as private brands.

## **7. Conclusions**

A country branding strategy for agricultural exports may be an effective way to promote a country's products on the international market. Nevertheless, significant challenges exist for a country brand due to difficulties in managing both the product-country image and product quality. For a brand to be successful, some means of assuring a consistent product quality is necessary to ensure long-term brand equity. The absence of prescribed quality standards and the presence of adverse selection may well drive down the quality or consistency of products to the point where the brand no longer has value.

A country brand will only be successful facing competition from other countries in the international marketplace if its claims are credible and unique. Initial success of the brand will deteriorate if consumers' expectations are not met or other countries imitate the claims made by the brand.

There may be opportunities for country brands to promote agri-food products in the international market, in certain countries for certain products, where a complementary quality can be identified and managed. To succeed, a country brand must credibly signal a unique product image to consumers. The analysis presented in the Commissioned Paper suggests that building a credible quality signal is not a simple task, and that quality assurance programs have an important role to play in maintaining the credibility of quality claims.