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GINSENG MARKETING: WHAT? WHERE?

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by

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## Ginseng Marketing: What? Where?

Forrest Stegelin, Extension Marketing Specialist

When I was asked to participate at this regional ginseng conference and discuss ginseng marketing, my response was what!?!... where!?!; hence the title of my presentation. My questions were out of fear rather than excitement. After all, I'm a transplant to Kentucky who has had mortgages in 7 states - Kansas, California, Louisiana, Oklahoma, Florida, Texas, and now Kentucky, and this is the first place I've ever heard of or seen ginseng except for some ginseng products in Okinawa and Japan (courtesy of the U.S. Air Force). Unfortunately for you, I don't think I'm an atypical American consumer in not being familiar with your commodity. In fact, the students in a food retailing class I teach on the UK campus questioned nearly 1,000 supermarket shoppers, who purchased goods from the health foods sections of 7 stores in the Lexington metropolitan area, as to their familiarity with ginseng. Fewer than 20 acknowledge ever having read or heard about ginseng and only 3 had purchased it before the interview (and only one of them was a repeat purchaser, the other two were one-time purchasers).

So I'm asking you, if your commodity was worth \$4 million at the grower or digger level last year, just what are you marketing? Educate me; someone needs to alert and wake up that sleeping giant called the domestic market. After all, Ron Singer pointed out that 90%-plus of your commodity is exported. If it's needed by someone on the other side of the Pacific Ocean, surely it must be needed by someone in America.

Perhaps I should rephrase the question...what is ginseng?

Let's retrace some steps and ask what is marketing? Rather than allow you to do the talking, here is a text book definition. Marketing is producing and merchandising the quality or grade of product that has the greatest profit potential at the most profitable time by the most profitable methods at the most profitable place and having some degree of control over both profits and prices. The traditional view of marketing was "selling what you have" while today's marketing focuses on "having what you can sell." The full marketing process includes a wide spectrum of decisions and activities intended (1) to satisfy customer needs and wants and (2) to hopefully be profitable to the marketer. These activities include (a) identifying customer needs, (b) developing products and services to meet these needs, (c) establishing promotional programs and pricing policies and (d) implementing a system of distribution to the customers.

The customer is of ultimate importance. Peter Drucker, management consultant and author, stated "marketing is so basic that it cannot be considered a separate function...it is the whole business seen from the point of view of its final result, that is, from the customer's point of view." This makes marketing ginseng difficult since, as several of you have indicated, ginseng can be whatever the customer wants it to be, from a medicine to an aphrodisiac to a senility cure to an anti-aging component to a stimulant and so forth.

Theodore Levitt of the Harvard Business School remarked "The purpose of the product is not what the engineer or technologist explicitly says it is, but what the consumer implicitly demands that it shall be. Thus the consumer consumes not things, but expected benefits; not cosmetics, but the satisfactions of the allurements they promise; not quarter inch drills, but quarter inch holes; not stocks in companies, but capital gains;...not low-caloried whipped cream, but self-rewarding indulgence combined with sophisticated convenience."

The other day I bought a hand saw at the hardware store. Did I really need a new handsaw? No, what I really needed was a shorter board; the 2" x 4" was too long for my use.

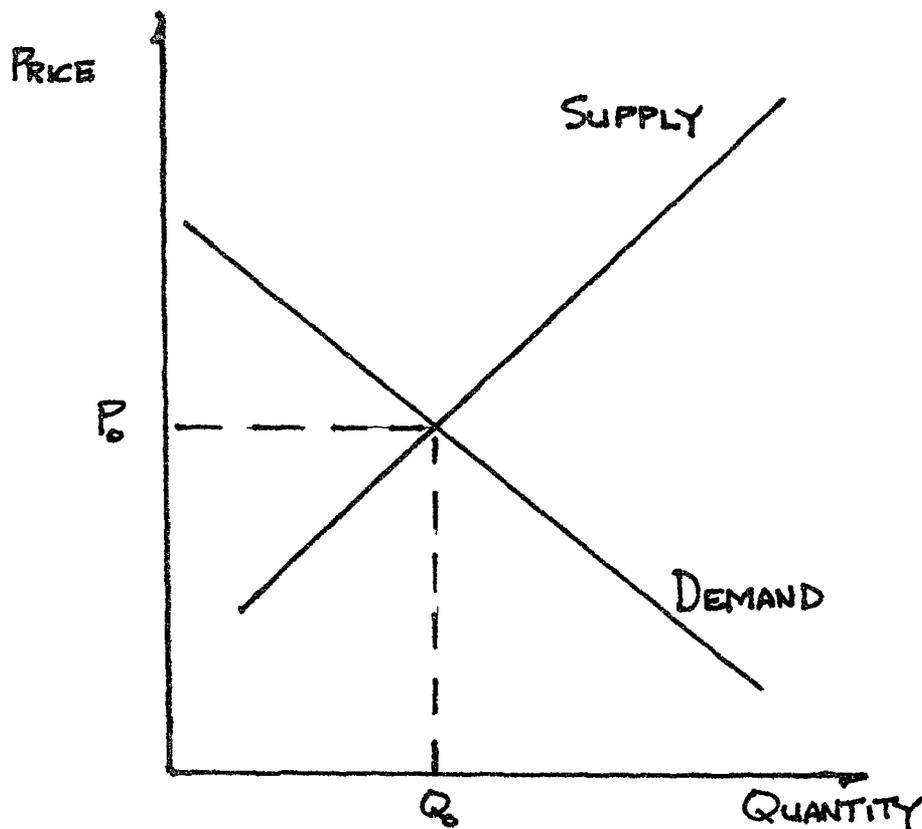
Charles Revson of the Revlon Cosmetics put marketing this way: "In the factory we make cosmetics but in the drugstore we sell hope."

What are the buyers and consumers of ginseng and ginseng products buying? Do you know? If we're to awaken the sleeping giant of a domestic market to the attributes of ginseng, what are we going to show and tell?

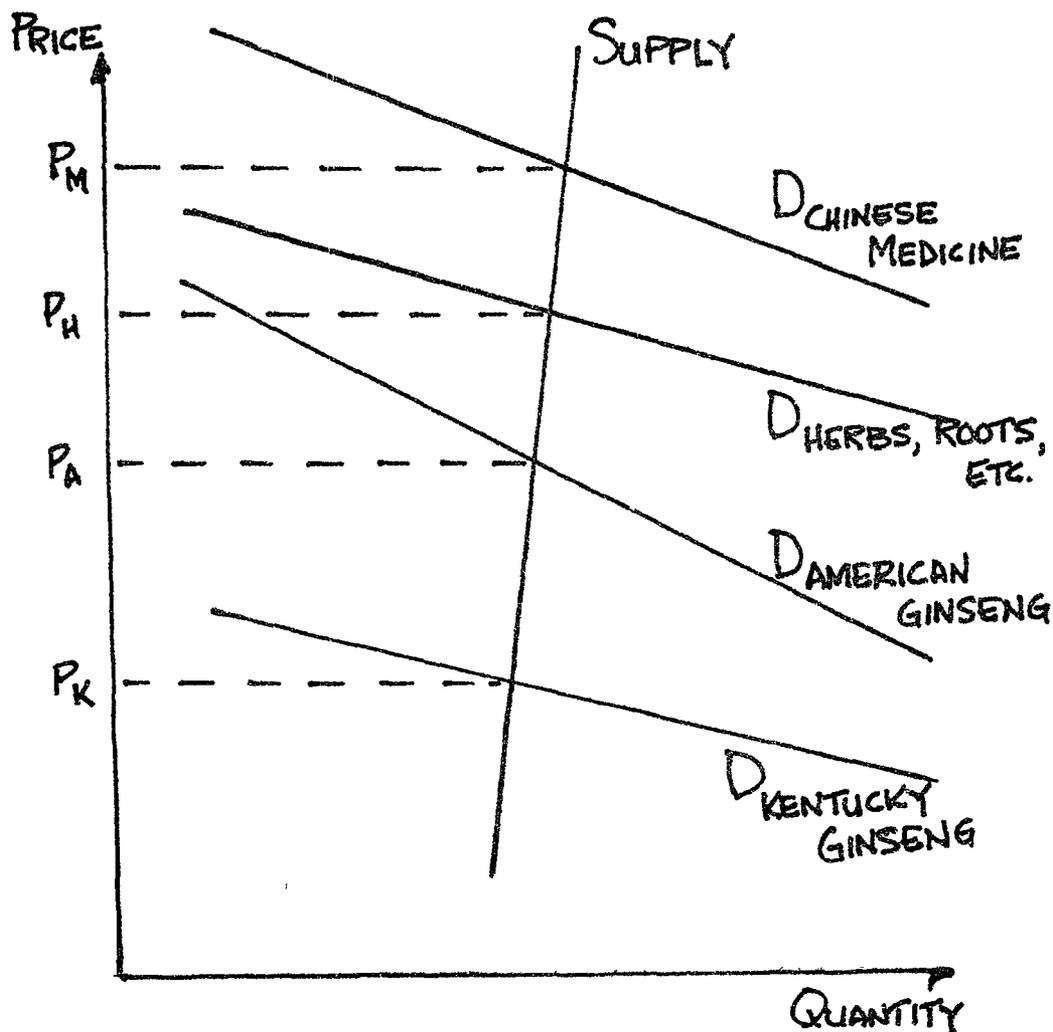
The future isn't what it used to be for the ginseng grower and digger. Peter Drucker has also pointed out that we're in an "age of discontinuity" causing marketers to keep one eye on the consumer for road signs and one eye on the road itself to watch for opportunities. For instance, our own Kentucky liquor distillers are turning to fruit flavored beverages that are low in alcohol after a century without a major marketing change from the old-style spirits. So why change now? "People have gone from drinking for effect to drinking for taste" says the

president of Schenley Distillers. The president of the House of Seagram states "The days of acquiring a taste for whiskey are gone. Today's drinkers want things that taste good right away." No longer are the distillers selling a hangover, they're marketing instantaneous taste because that's what the consumer demands.

The following graph depicts a supply and demand relationship. The supply line is upward sloping to the right, indicating you as growers provide more at higher prices than at lower prices. The demand curve is downward sloping to the right because you as consumers typically buy more at lower prices than at higher prices. Price rations the supply, as indicated by the intersection of the supply and demand curves. Notice only one demand line is drawn.



For ginseng, you as a Kentucky ginseng grower or digger are faced with a derived demand. The demand for your ginseng roots is derived from the demand for the final product or use and the various intermediate needs as well. For instance, the following graph indicates a final demand for Chinese medicine, which requires (demands) various herbs, roots, etc. to complement the medicinal properties, which requires American ginseng, which creates a demand for Kentucky-grown American ginseng. Because the total supply availability in the export markets has been fairly consistent, the supply line is nearly vertical.



Because of the various marketing intermediaries and handlers, the farm to retail price spread indicates many potential steps, each extracting some amount of margin for services rendered. I do not have statistics to highlight the farm to retail price spread for ginseng, although the following list of participants from Chinese consumer to Kentucky digger should be fairly accurate.

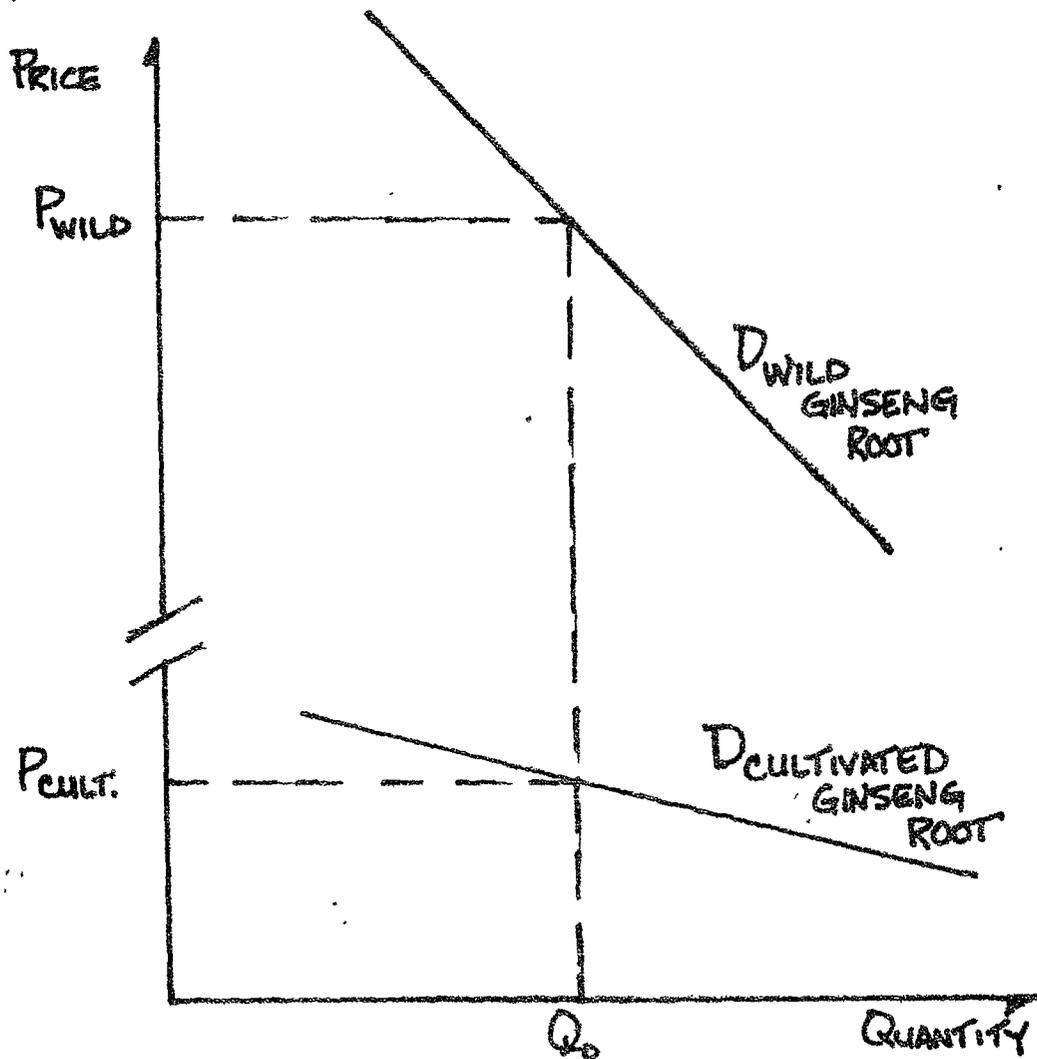
- Chinese consumer
- Chinese retailer
- Chinese distributor
- Chinese manufacturer
- Chinese importer at Hong Kong
- U.S. exporter
- U.S. broker/buyer
- Kentucky dealer
- Kentucky digger or grower

The Kentucky price you receive for ginseng root is a derived price -- derived by subtraction from what the tier above anticipates receiving for the product in turn. In other words, you are a price-taker and a residual claimant to what prices the Chinese retailer sold his ginseng product to his customer.

The Chinese have a saying that loosely translated means that change is a two-edged sword: opportunity and danger. We have opportunity with the domestic market for ginseng and true ginseng products, not these near-ginsengs and pseudo-ginsengs that are imported onto our health food counters.

But first let's face the issue of the wide price disparity between wild ginseng and cultivated ginseng. There is a valid, logical reason wild ginseng diggers are paid 3 to 5 times the price of cultivated ginseng. They are different products. The

Chinese inform us that no matter how sly we may think we are by inserting cultivated ginseng into a shipment of wild ginseng, they can see the difference and we're only hurting ourselves with such trickery. Ron Singer indicated 14 states legally export ginseng, plus a half dozen countries that we exported seed to during the early 1980's. If we don't play by the rules, we may not get to play at all, or even watch from the bench. The products (wild versus cultivated or artificially propagated) are different based on quality so acknowledge it and be proud of the wild ginseng price and raise it higher by enforcing quality standards in each of your shipments.



Do you really think Ferrari or Rolls-Royce, worry about Yugo selling a car for \$4,000 when theirs are priced at \$140,000? Or, do you think Yugo worries about Ferrari or Rolls-Royce? I doubt it. Just because those companies all sell transportation and specifically automobiles, they realize there is product differentiation. The price differential is not a change in the quantity of transportation demanded, but a change in the demand for transportation. Likewise the scenario reads for ginseng. Let the cultivated ginseng grower sell his root for \$30 a pound, while you sell your wild root for \$120 a pound. The price difference exists because the market says the wild is worth more than the cultivated ginseng.

What price factors influence the price you receive? We've already discussed the price spreads and margins, but there are some other factors (some are non-price factors) that affect the price a digger receives. The list includes:

- \*quality
- \*supply and demand of real ginseng
- \*end use or need
- \*price of complements
- \*exchange rates and strength of dollar
- \*inflation in the U.S. and abroad
- \*price competition and availability of substitutes
- \*technology transfer (exporting seeds)
- \*grower euphoria/reluctance/remorse
- \*legislation, FDA, USDA, CRITES

If there is indeed potential for a domestic ginseng product market, the key is the consumer, or as Pogo once said "We have met the enemy and it is us!" Among non-durable or consumable products, consumers buy quality, not price, and it's preference, not price, that stimulates or encourages the purchase at all.

Consequently, there is consumer differentiation as well as product differentiation. The most obvious is the foreign and domestic consumer. The foreign consumer is still steeped in tradition, myth and belief as handed down through the generations. The foreign consumer is, however, becoming increasingly "westernized." The domestic consumer is becoming, on the other hand, more "world-ized." There was a ginseng product boom in the early '80's. Was it a fad (top down, like the hoola-hoop or Nehru jacket) or a trend (bottom up, like changing diets from red meats to vegetables)? Does the American consumer have a need? Does the American consumer even have knowledge of the product(s)? Does the American consumer know of its availability (location and form) and do the retailers know of its availability (distributors as well as within their own stores)?

Once the consumer is aware of and perceives a need for the product, demand pull is easy -- simple reminders. However, you're facing demand push, which may have the same effect as pushing a piece of string, log chain or wet noodle. But you've got to start somewhere and sometime, and Lexington on March 17, 1987 (St. Patrick's Day...a little good luck never hurt anyone) is as good as any. Consumer profiles foretell favorable buying trends and marketing strategies for the 1990's as the behavioral trends indicate the future is bright for snack foods, cold foods, out-of-hand foods, ethnic foods and take out foods. Ginseng products can be marketed accordingly. The fresh, the real, the flexible, the gratifying, the healthy and the light are the consuming buzz-words in today's food marketing world.

There once was an active Kentucky Ginseng Association and a Kentucky Ginseng Growers Association. In fact some of the charter members of these organizations are here today. From this stage I see the possibility of a sleek well tuned vehicle for promotion of ginseng products to the American consumer. Unfortunately it will take some work because right now it resembles a frame covered with cobwebs and dust sheltering an engine that needs not only tuning but oil in the crankcase and gas in the tank before we wax and polish it.

We need to stimulate domestic demand, but the consumer must first be aware of the product(s), appreciate the benefits of the products, and recognize a need to use the products. Promotion and advertising are essential. No, we don't need budgets like Coca Cola, the Florida Orange Growers, or the American Dairy Association. Simple testimonial education of consumers and retailers would at least prime the pump. But advertising (even word of mouth) is necessary. Everyone has heard of Coke, so why should that company spend \$80 million in advertising? If it doesn't continue advertising, Pepsi will take over.

Advertising need not emphasize price. Consumers frequently do not buy based on price. If they did, no one would have a "loaded" car. A car with all the chrome, bells and whistles gets you down the road just as far as a stripped down one will, but you can't park a stripped, plain car in the driveway. What will the neighbors say or think? Instead of dwelling on price, marketers should dwell on the difference -- what sets the product apart from its competition. What are the attributes of ginseng?

Statistics of advertisements indicate ginseng is a well kept secret in America, but there are non-U.S. suppliers and markets aggressively advertising ginseng. The three most seen pages in a magazine (excluding the cover) are inside the front cover, inside the back cover and the back cover. Because of this visibility, these pages cost the most for advertising. Some of you read Newsweek, Business Week, and other similar magazines. Here is the January 1987 Korean Business World (same format and readership as our magazines) and inside the front cover is an ad for Korean red ginseng describing it as a panacea that develops your health and lengthens your life; inside the back cover is an ad for Supreme Elixir Korean ginseng describing in intellectual and scientific phrases the components (like reading ingredients on a box of cereal) and virtues of the product; and on the back cover is an ad for Korean white ginseng describing how it results in attracting profitable commercial ventures. Do you not see the handwriting on the wall?

Finally, if ginseng is as good as all of your claims, let's do it ourselves by developing a ginseng processor in Kentucky. Economic growth and agricultural diversification have been our battle cry, so let's vertically integrate through the development of a ginseng processor, processing real ginseng into teas, ales, tonics, juices, colas, snack bars, cookies, candies and whatever else you claim it's marketable as.

If we're going to wake the sleeping giant of a domestic market, we best be prepared to feed him and that means having the products available (not relying on imports of our own root that was processed overseas).

The O ptimism  
U niversitas  
T echnology  
L egislature  
O rganization  
O pportunity  
K ey (growers and consumers) is bright; the time is

now. Remember, the last 4 letters in American (as in American ginseng) is I CAN!