Generic Promotion of Agricultural Products
Balancing Producers' and Consumers' Needs

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James R. Blaylock

Abstract: Farmers sponsor generic advertising campaigns to expand the total market for their commodity. Generic advertising promotes a type of food, such as milk, beef, or orange juice, rather than a specific company's brand. Sales promotions may help increase consumer demand and raise—or at least stabilize—commodity prices. If producers can improve their domestic markets through generic advertising, some pressure on price supports and other traditional farm policy tools could be relieved. The growth in promotions has spurred public debate about the costs and benefits for producers, and the effect on food budgets and choices for consumers. Do producers gain from advertising, and if so, do consumers pay the price in their food bills?

First Generic Promotion Was 50 Years Ago

Since the Florida State legislature enacted the first promotional program funded by producers 50 years ago, the number of promotions has grown steadily. The oldest Federal law authorizing research and promotion programs is the National Wool Act of 1954. Congress has reauthorized the wool promotion program in each farm act since then. Cotton research and promotion started in 1966. Legislation authorizing potato and egg programs was passed in the 1970's.

Today, 312 Federal- and State-legislated promotional programs cover over 80 farm commodities. This figure does not include 39 State-legislated programs for beef and pork promotion that are now linked to Federal checkoffs. Ninety percent of all U.S. producers contribute money to farm commodity promotion and market development activities through State and/or federally legislated programs.

Policymakers considering legislation to authorize or alter generic promotions must balance the competing needs of producers and consumers. Legislation at the State or Federal level may authorize funding of promotions through checkoffs or assessments on producers, specify that producers receive matching funds from the Federal or State Governments, or authorize the creation of a marketing order (regulatory program affecting price, quality, and supply of a product). The Federal Government recently has moved toward mandatory checkoff programs that require producers to pay assessments before they vote on whether to continue or terminate the program.
New national promotional programs for dairy, beef, and pork began generating more than $300 million in producer money each year beginning in 1983. These three promotions represent a push toward creating large national programs. Increasing sums of producer money now go to domestic market promotion. As funding has grown, producers have been given less discretion in determining whether to participate in generic promotional programs, especially at the Federal level.

Producers contribute more than $530 million a year to promote their farm products both here and abroad through Federal- and State-legislated checkoffs or marketing order programs. Voluntary, nonlegislated actions or farmer cooperatives generate over $30 million more in producer monies. Sizable public funding also goes to farm commodity promotion at home and for foreign market development. While funding for promotion is rising, the amount spent is still small relative to commodity value. The national pork checkoff program, for example, generated approximately $22 million in its first year of operation compared with farm sales for pork of $11 billion.

Nearly 90 percent of the $435 million spent for research and promotion in 1986 was aimed at domestic markets (table 1). Dairy and meat had the highest spending levels (fig. 1). Field crop programs spent the most on international market development. Total expenditures for domestic advertising and promotion, as well as for research, have climbed in the 1980's (table 2). Between 1979 and 1986, producer expenditures for domestic promotion nearly doubled on a constant-dollar basis (adjusted for inflation). Foreign market development and research rose a bit less.

### How Do Generic Promotions Operate?

A wide variety of mechanisms are used to set up and run generic promotion programs (table 3). Either the Federal or the State Government can authorize collections. Once they are authorized by law, programs can be funded and managed entirely by producers (free-standing operations), or tied to U.S. Department of Agriculture (USDA) regulatory programs (marketing or-

#### Table 1—Spending on research and promotion approaches half-billion-dollar mark, 1986

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Ads aimed at domestic markets</th>
<th>Ads aimed at overseas markets</th>
<th>Research on product development</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy</td>
<td>183.0</td>
<td>0.0</td>
<td>11.0</td>
<td>194.0</td>
</tr>
<tr>
<td>Meat</td>
<td>71.0</td>
<td>3.0</td>
<td>10.0</td>
<td>84.0</td>
</tr>
<tr>
<td>Fruit</td>
<td>58.2</td>
<td>8.3</td>
<td>4.2</td>
<td>70.7</td>
</tr>
<tr>
<td>Field crops</td>
<td>7.7</td>
<td>17.1</td>
<td>6.1</td>
<td>30.9</td>
</tr>
<tr>
<td>Natural fiber</td>
<td>14.8</td>
<td>5.9</td>
<td>5.8</td>
<td>26.5</td>
</tr>
<tr>
<td>Vegetables</td>
<td>8.6</td>
<td>1.0</td>
<td>2.2</td>
<td>11.8</td>
</tr>
<tr>
<td>Poultry/eggs</td>
<td>7.2</td>
<td>.1</td>
<td>1.0</td>
<td>8.3</td>
</tr>
<tr>
<td>Other</td>
<td>6.7</td>
<td>.5</td>
<td>1.2</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>357.2</td>
<td>35.9</td>
<td>41.5</td>
<td>434.6</td>
</tr>
</tbody>
</table>

1Does not include matching expenditures made by Foreign Agricultural Service, USDA.

2Funds collected from producers total $530 million. About $435 million, or 82 percent, goes to sales promotion and research. The rest is for refunds, administration, and other costs.

#### Figure 1

Dairy leads spending on domestic generic promotion, 1986

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Spending (Million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy</td>
<td>183.0</td>
</tr>
<tr>
<td>Meat</td>
<td>71.0</td>
</tr>
<tr>
<td>Fruit</td>
<td>58.2</td>
</tr>
<tr>
<td>Natural fiber</td>
<td>14.8</td>
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<tr>
<td>Vegetables</td>
<td>8.6</td>
</tr>
<tr>
<td>Field crops</td>
<td>7.7</td>
</tr>
<tr>
<td>Poultry/eggs</td>
<td>7.2</td>
</tr>
<tr>
<td>Other</td>
<td>6.7</td>
</tr>
</tbody>
</table>

#### Table 2—Growth in producer spending for generic promotions

<table>
<thead>
<tr>
<th>Year</th>
<th>Ads aimed at domestic markets</th>
<th>Ads aimed at overseas markets</th>
<th>Research on product development</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>180.6</td>
<td>19.7</td>
<td>24.6</td>
<td>225.0</td>
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<tr>
<td>1982</td>
<td>172.4</td>
<td>35.5</td>
<td>30.5</td>
<td>238.7</td>
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<tr>
<td>1986</td>
<td>357.2</td>
<td>35.8</td>
<td>41.4</td>
<td>434.6</td>
</tr>
</tbody>
</table>

**Producers’ contributions to domestic advertising have almost doubled in the 1980’s.**
Table 3—Characteristics of generic promotions, 1986

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Dairy¹</th>
<th>Field crops</th>
<th>Fruit</th>
<th>Natural fibers</th>
<th>Eggs</th>
<th>Meat²</th>
<th>Vegetables</th>
<th>Other products³</th>
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<tbody>
<tr>
<td>Number</td>
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<td>67</td>
<td>82</td>
<td>11</td>
<td>27</td>
<td>8</td>
<td>50</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>6</td>
<td>0</td>
<td>15</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
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<td>67</td>
<td>67</td>
<td>9</td>
<td>26</td>
<td>6</td>
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<td></td>
<td></td>
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<tr>
<td>Producer-funded</td>
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<td>42</td>
<td>20</td>
<td>9</td>
<td>15</td>
<td>6</td>
<td>27</td>
<td>18</td>
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<td>Marketing order</td>
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<td>43</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Promotion order</td>
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<td>19</td>
<td>2</td>
<td>12</td>
<td>2</td>
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<td>9</td>
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<td>53</td>
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<td>7</td>
<td>18</td>
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<td>12</td>
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<td>29</td>
<td>14</td>
<td>66</td>
<td>4</td>
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<td>38</td>
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<td>26</td>
<td>17</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>14</td>
<td>11</td>
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<td>Periodic reapproval:⁴</td>
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<td>6</td>
<td>12</td>
<td>5</td>
<td>20</td>
<td>27</td>
</tr>
</tbody>
</table>

¹ Includes the national dairy checkoff program, 5 Federal milk marketing orders that allow for promotion, and 23 State-legislated programs.

² Includes only national beef and pork checkoff programs that operate in conjunction with 39 State programs. Also includes State-legislated checkoffs on sheep and wool.

³ Includes such commodities as honey, tree nuts, catfish, and oysters.

⁴ A formal and periodic reapproval referendum is required.

Advertising funds under mandatory Federal or State programs are usually collected at the first step in the food marketing process. The firm that takes the farm commodities for processing, storage, or transport is called the first handler. A small portion of the first handler's payment to the producer is withheld for ads, based on quantity sold. First handlers deduct the amount they pay into the advertising fund from the prices they pay to producers or they collect assessments directly from producers as part of handling charges.

Industry boards, such as the National Dairy Promotion and Research Board, collect the funds and administer the advertising programs. The Agricultural Marketing Service, USDA, supervises federally mandated boards to ensure that they comply with the intent of the laws and that funds are legally spent.

Producers' Concerns

Are Generic Ads Effective?

For producers to feel that their dollars are well spent, the ads must show results in product sales. Producers have voiced their confidence in various generic campaigns by voting for the programs in referendums.

Studies have shown a positive relationship between advertising expenditures and sales for a wide range of commodities, including milk, cheese, grapefruit juice, and orange juice.
Ads Boost Cheese Sales

Advertising raised natural cheese sales by about 16 million pounds and processed cheese sales by about 98 million pounds during September 1984-June 1987, according to a recent study. The ads persuaded people who do not normally buy cheese to try natural cheese. The public reacted differently to processed cheese advertising. People who normally buy processed cheese bought more, but not many new customers were attracted to it.

Evaluating generic advertising campaigns is difficult. Many other factors in the market, such as consumer income, prices of substitute foods, and changes in the quality of the advertised product, influence how consumers respond to ads. Spending for generic advertisements is usually far below the amount spent to promote specific brands of foods. Many campaigns have not been underway long enough for results to be clear.

Researchers use two approaches to determine the net effect of promotion on sales. One is the use of econometric modeling techniques that measure relationships between sales and promotion while filtering out the effects of various other factors such as prices and customers' income. Another approach is to use an experimental design technique in which one group of individuals is exposed to the promotion while the other is not. The researchers control for other factors and compare the two groups to determine a net relationship between sales and promotion.

Florida Citrus Ads Improve Sales

Research on the effectiveness of generic and branded advertising for Florida citrus products was conducted at the University of Florida. The research has found:

- both generic and branded advertising had a positive influence on sales;
- the carryover effect of advertising for orange juice was about 15 months, although the greatest effect occurred during the first month the advertising appeared;
- the best approach is to evenly distribute advertising expenditures over the 12 months of the year.

Regardless of the approach, researchers need data on both promotion and consumption to evaluate the relationship between the two. Also, since promotion is not the only influence on consumer purchases, researchers need data to capture the effect of other factors on consumption. The estimated relationship between promotion and consumption can be used to judge the probable sales effectiveness of alternative promotion programs.

Given limited consumer income, if one commodity is to increase its share of total food budgets, it must do so at the expense of competing commodities. Increased funding by several competing commodities, namely beef, pork, and dairy, raises questions about the cross-commodity effect of promotional programs. The resulting change in the structure of the food system affects not only commodity producers but also the consuming public.

To evaluate the cross-commodity effect, econometric models that relate sales and promotion should include all food products bought by consumers. This requires a complete demand system for food purchased by the public. Such a model would be able to assess how promotion of one commodity affects sales of another, competing commodity group, and vice versa. The public sector has a role in this research, since any individual industry is mainly interested in seeing its own promotions succeed and not in evaluating how they assist or damage others. Also, if research is publicly supported, unbiased interpretations of the findings would be freely available to all. So far, however, measurement efforts have been limited because little data on advertising expenditures are available.

Voluntary or Mandatory Contributions?

In the early generic promotions, producers who opposed the program could have their assessments refunded. Federally mandated generic advertising programs now require producers to participate for a specified period of time before voting on whether or not to continue the program. The mandatory programs have been established because offering refunds raised concerns about fairness to producers who supported the program and refunds led to financial problems.

Refunds create administrative burdens. Uncertainty about how many refunds there will be undercuts administrators' ability to plan long-term campaigns. Refunds for egg and cotton programs ran up to 30 percent or more in 1982-83. Refunds can also be viewed as unfair to the majority who contribute because they allow for "free-riders." Because a generic ad promotes
a type of food, such as raisins or milk, all producers in the industry benefit from the campaign, whether they contribute or not. Free-riders who took refunds gained even though they did not share the costs.

To avoid the potential free-rider problem, recent federally legislated programs have been mandatory. The dairy, beef, and pork industries no longer offer refunds. The cotton industry is also seeking to eliminate refunds.

**Do Producers Have a Choice?**

Since contributions for recent Federal programs are mandatory, the major way for producers to influence a promotion program is through a referendum. Timing of the referendum has raised questions. How will producers know enough about the program’s effectiveness to vote before it is implemented? But, is it fair to charge producers fees for advertisements if they have not voted on the program?

In the past, a majority or two-thirds of producers had to approve a checkoff program before it was established. The dairy promotion program under the Dairy and Tobacco Adjustment Act of 1983 was the first federally authorized generic campaign that started before a referendum was taken. The beef and pork industries followed suit.

Producers vote after the programs have operated for a specified period, usually 2 years. Policymakers must consider the equity implications of imposing mandatory assessments on producers who have not yet voted on the program.

But permitting a vote on a program that has not had a chance to be implemented raises policy questions too. Up-front referendums force producers to vote based on their expectations of program benefits. Holding a referendum after a trial period gives producers information about program benefits on which to base their votes. Fees collected before the vote can be viewed as the cost of acquiring better information for voting on longer term programs. A way to give producers unbiased evaluations of the program during the experimental period is needed so that they can make the best informed voting decisions. The dairy and the beef producers recently have voted to continue their check-offs.

**Which Producers Benefit from Generic Promotion?**

Programs without refund options must be carefully designed to distribute benefits fairly, since all producers contribute proportionally to the fund. Ads should cover a range of product uses, and administrative bodies should represent the full range of interests among producers.

For example, if assessments are collected on a product that is marketed in both fresh and processed forms, advertising must be directed at markets for both fresh and processed products. Otherwise, only part of the industry gains even though all segments paid into the campaign. Hence, the National Dairy Promotion and Research Board advertises not only fresh milk, but also processed products, such as cheese, since some producers sell only milk that is used in processed dairy products, while others sell milk only for the fresh market.

**Consumers’ Concerns**

**Do Generic Promotions Raise Prices?**

The ultimate effect of advertising on prices depends on how consumers react to the ads and how producers respond to changes in the demand for their product. Consumers may initially face higher prices from generic promotions because the ads push up the demand for the product and the cost of doing business.

The goal of advertising is to increase sales at any price and to reduce consumers’ sensitivity to price changes. Prices rise with rising demand, if other factors such as income and the price of competing goods remain the same. However, prices may not be affected by advertising expenditures in the long run. Over time, producers should respond to the higher price with expanded supplies and reallocation of products among uses.

The case of milk shows how supply changes in response to demand. Recent increases in milk consumption, partly due to generic ads, have caused small reallocations of milk supplies from processed uses to the fresh market.

Other commodity groups may respond to promotions by their competitors. How will poultry pricing change with major beef promotions underway? The poultry consumer could benefit from lower prices spurred by competition from beef, or poultry producers may advertise their own product in response to beef advertising.

Whether a particular generic promotion helps or hurts consumers depends on the mix of products they regularly purchase, and whether other goods are avail-
able to substitute should prices rise. Low-income consumers would be the group hurt most by price hikes, since food takes a larger share of their disposable income. The size of the effect depends on the current mix of foods purchased by low-income people and how the mix changes after the price rise. A better understanding of the mix of goods purchased by consumers, particularly low-income consumers, would help in assessing the potential effects of the advertising programs on different income groups.

Do Consumers Benefit from Generic Promotions?

Many of the newer advertising programs emphasize nutrition education. While placing an economic value on education is difficult, the benefits to lower income groups from nutrition education could exceed losses associated with rising costs.

Consumers can benefit if the generic advertisements offset the effects of advertising for nutritionally inferior foods. Generic campaigns have urged consumers to substitute milk for soft drinks, or grapes for candy. Advertisements can also introduce consumers to a greater variety of foods, offer recipe ideas, and correct misconceptions about a particular food's nutritional value.

Issues for Future Evaluation of Generic Promotion

Evaluation research should be regarded as an integral part of the whole commodity promotion scheme. Promotion programs affect the public as taxpayers and as consumers. They also affect producers who pay costs of assessments or gain revenue generated by promotion. Research results can be useful for tracking and evaluating promotion performance, diagnosing market changes, and making program allocation and implementation decisions.

Fortunately, some evaluation research has been conducted. The Florida Citrus Commission, the United Dairy Industry Association, the New York Milk Promotion Board, the National Dairy Promotion and Research Board, and other groups have conducted or sponsored econometric studies and experimental design studies. These studies have provided substantial insight into how and the extent to which advertising affects sales and consumption.

Unfortunately, few promotions underway have adequate measures of sales. And even where sales data are available, few of the promotions are actually being evaluated so that empirical measures of the sales effect are generated. If the public interest and the farmer interests are to be appropriately and adequately served, the commodity promotion organizations and the responsible public agencies must ensure that adequate data are generated and appropriate empirical models established, and objective research and analyses performed.

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