Understanding the U.S. Generic Advertising System and Its Role in Information Management Among Commodities and Food Systems

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Paper prepared for presentation at the 1st International European Forum on Innovation and System Dynamics in Food Networks
Officially endorsed by the European Association of Agricultural Economists (EAAE), Innsbruck-Igls, Austria
February 15-17, 2007

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"Beef, it's what's for Dinner." "Got Milk?" "Pork, the Other White Meat." "Flowers. Alive with Possibilities." These messages are examples of common terms familiar to individuals involved in the supply chain for major agricultural products in the U.S. Information about products is a key ingredient to the successful movement of the goods from production to final consumption. Many foods, fibers and goods purchased for the aesthetic purposes maintain much of their form throughout the supply chain. Often processing and handling are major functions that can lead to new product forms and even potential for food safety issues at every stage of the distribution. Final demand for these products is partially a function of the state of information about the entire system from production to the final outlet. This is particularly true for issues related to food safety and health. Potential consumers may have limited knowledge of the product attributes, may have perceptions that are not factual, and may simply need to be reminded about the product. As products move through the supply chain, much of the information comes from three sources: (1) mandatory labeling; (2) branding; and (3) industry funded programs. In the U.S. system industry funded promotions are referred to as commodity check-off program and is a mechanism for supporting generic advertising. Depending on the industry, the messages may target many points in the supply chain but almost always originate at the producer or first-handler levels. They are government-sanctioned but producer-funded efforts to enhance the demand for commodities. As opposed to advertising for specific brands of a product by particular producers, generic advertising is generally a cooperative effort of a large group of producers (suppliers) using advertising and promotions to enhance the demand for nearly homogeneous products.

Generic advertising is all about information -- information about a specific commodity and its underlying attributes. Consumers already have a reasonable amount of information about most foods, fibers, and other goods they buy along with some history of use. Ultimately the purpose of generic advertising is to provide a base support for the industry where producers have direct input into the flow of information. It is a mechanism where producers can be proactive with issues at any point in the supply chain. Generic advertising and promotions focus on those attributes common to the group and those attributes that may not be readily judged without assistance (e.g., nutritional content, origin, or quality assurance).

Approaches to generic advertising generally include those funded and managed by governments; those funded and administered by industries using a voluntary system; and those funded and managed by industries but under a mandatory assessment system. Government versus private funding is closely tied to the history and political system of each country.In the U.S., domestic promotion programs are seldom funded by the government. Instead, the federal government provides the legislative authority for a commodity sector to assess producers, handlers and importers who are the potential beneficiaries of the generic promotions.

Goods that cannot be differentiated are referred to as cooperative goods. For cooperative goods, generic advertising may potentially enhance total demand but should not change the underlying market shares among producers and/or suppliers. For some goods, consumers may be willing to search out the attributes they desire in a product before making a purchase. Alternatively, they may be willing to experiment with goods to gain a greater understanding of the products attributes (Forker and Ward, 1993.) These search and experience categories provide considerable insight into how receptive and responsive potential consumers may be to an advertising message. Additionally, some products have credence attributes such that consumers must rely on external information to judge a particular product attribute. Claims about antioxidant benefits are a good example of a credence attribute.

Many, if not most, foods, fibers, and goods purchased for their aesthetic value, such as flowers, fit within the cooperative and/or experience goods categories. Such products lend themselves more to the promotion of the commodity itself (generic advertising) than to the promotion of a specific form or particular attributes of the commodity (brand advertising). For commodities that do not fit well into the cooperative and/or experience categories, both generic and brand promotional activities are common. The relative intensities between generic and brand promotion for those products then depend on the consumers' need for information in general and the ability of the product to achieve some level of brand identity. The U.S. meat industry is a good example of this concept where about 80 percent of beef is non-branded while more than 80 percent of poultry is branded (Ward and Ferrara, 2005).

If a product is not differentiable and information is needed, why do producers tend to promote their commodities collectively? The answer is relatively simple: free riders and the cost of advertising. When advertising of a generic product by any specific producer increases total demand for that commodity, the gains from one producer's advertising may be partially captured by other producers who do not share in the cost of the advertising. These producers get a "free-ride" in terms of increased demand from the promotional efforts by individuals or small groups of producers. This is the classic "free-rider problem" in which everyone shares in the benefits but only a few pay the costs. Also, the cost of sufficient advertising to have a perceptible effect on total demand is generally beyond the means of individual producers. U.S. commodity checkoff programs were designed to deal with these two problems - minimizing the effect of free-riders and creating sufficient resources to pay for expensive media advertising. Removing potential free-riders and creating a pool of funds earmarked from generic advertising messages is precisely the intent of the national legislation for supporting commodity checkoff programs in both the domestic and foreign markets. Commodity checkoff authority granted through the federal enabling legislation provides the vehicle for collecting assessments to fund generic advertising programs and a method for agricultural industries to address information issues up and down the supply chain.

Structuring Commodity Checkoff Programs

While checkoff programs are diverse and the goals dependent on the situations for each commodity, there are several common functions found across the generic advertising programs. As indicated in Figure 1, all checkoff programs must: (1) entail an administrative structure; (2) have a precise message and focus; (3) show economic benefits; and (4) exhibit fairness and equity in setting the program focus and resulting distribution of benefits. Nearly all commodity checkoff programs are funded through a unit or value assessment on producers and first handlers (top box of Figure 1). Assessments are generally in the range of less than percent of the value of the good. Most assessments are on a unit basis with pork being a notable exception. While the day-

to-day administrative structures are similar to many Boards of Directors, they differ in that either state or federal governments closely monitor the policies and administrative activities. The government's role is essential when individual producers are required to pay assessments based on state or federal enabling legislative authority. Clearly, the authority to impose assessments on producers in an industry must be accompanied by direct governmental oversight. Administrative structures range from very large Boards such as found with the beef checkoff to Boards made up of a few elected or appointed Directors. In every case, the Directors have the authority to set policies, govern the administrative staff, and set the focus and intensity of the various advertising and promotion programs. Yet, as long as a program is mandatory, actions by a commodity checkoff Board may be subject to governmental veto.

Advertising messages of the various checkoff organizations are as diverse as the commodities they represent and are closely tied to the attributes of the product, the target audience, and the media used (the right box in Figure 1). Most, if not all, checkoff programs have logos and straplines like those at the beginning of this article that convey the intended messages. Usually, the product is for consumption at the retail level and the raw product is easily identifiable throughout the distribution channels. For example, fluid milk or beef at the retail are directly associated with the farm-gate goods. Messages, target audiences, and the intensity of the promotions are initially developed in close coordination with various advertising agencies. Even so, in many cases, the federal or state level governments have veto power over the fundamental message(s) being considered. Media used are functions of the available resources and the need for local, regional, or national coverage. Complexities with the message and focus often are associated with the diversity among groups in the supply chain. Competing interests within a commodity sector often create a challenge in designing and delivering generic advertising messages.

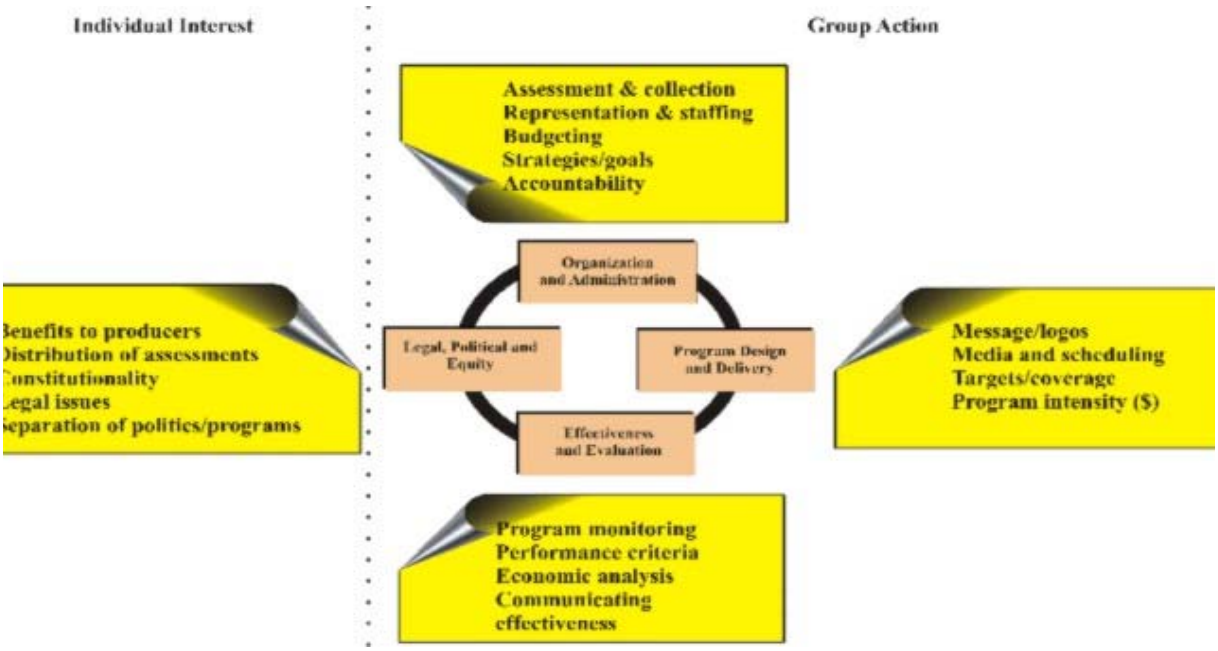


Figure 1. Structure of commodity checkoff programs

Moving clockwise around Figure 1, the box at the bottom relates to the economic impact of the generic advertising. To determine the effectiveness of a checkoff program requires the development of criteria for judging performance and methods and data for measuring the impact on demand usually involving some form of statistical analyses. Many commodity groups have turned to econometric modeling as the instrument for determining if their generic advertising mes-

sages have had a numerical and statistically significant impact on demand. Most of these models account for the effects of advertising on demand in terms of the dollars spent over an appropriate time interval. They frequently include delayed demand responses and measure both short-term and long-term impacts. These models usually show numerical measures of the advertising impacts on demand and calculate benefit-cost ratios at different levels in the distribution system. Some models first measure demand changes at the retail and then attempt to determine how gains are distributed through the vertical market system back to producers.

Referencing back to Figure 1, the top, right and bottom boxes reflect the collective efforts by a commodity sector to achieve demand changes through an administrative structure that designs and delivers the generic message. In contrast, the last box on the left represents the interests of the individual producer. If a producer feels that his or her share of the gains is not proportional, an equity problem potentially exists and that producer may oppose the program. Equity concerns may relate to the distribution of benefits among producers and the distribution of benefits up and down the vertical market system for the commodity. Opposition to a program may be expressed through administrative and legal channels. Evaluations of these programs are particularly important when addressing equity concerns since it is at the evaluation stage where the benefits and the distribution of the benefits are measured.

Common Characteristics of Generic Promotions

Almost all generic programs in the U.S. exist through a state or federal marketing order or through a national checkoff. National checkoffs cover the entire nation and are limited to generic promotions and research in product development and economic analysis. Marketing orders have regulatory functions with promotions sometimes being of secondary importance (i.e., that is more likely the case with federal compared to state orders). Under both legal structures, some of the common characteristics include the following:

* Group promotions - the promotions are designed for the total product category and not firm specific.

* Mandatory participation - contributions to the programs are required although in a few cases some type of advertising credits might be available to compensate individual promotion activities.

* Coverage - if a national checkoff, then all domestic production above a lower limit for products entering interstate commerce are subject to the assessment as are most imports. For state and federal orders the coverage is defined by the geographical boundaries for the order.

* Industry funded - most commodity programs are funded through a producer/grower per-unit or per-value tax and supplemented with federal dollars for international promotions.

* No refunds - during the early history of the generic promotions, refunds were built into some of the legislation. History has shown that refunds create free-riders and have, for the most part, been eliminated from these programs.

* Industry managed - the day-to-day management of most programs is under the direction of Boards or Commissions with a Director or similar head responsible for implementing Board decisions.

* Government oversight - all national checkoffs and federal marketing orders are under the direct supervision of the USDA and are subject to government regulations. State orders are subject to similar government oversight at the state level.

* Government veto and termination - most of the checkoff promotions can be stopped, changed, or redirected through a government veto over specific policies.

* Nonpolitical - none of the checkoff funds can be used for political purposes.

* Referendum - all national programs have a built-in referendum date and any of the national, federal or state programs can have a called referendum. Usually around 10 percent of the producers is enough to have a special referendum vote.

* Legal challenges - all programs can be challenged through the legal system. The programs can be considered through the USDA judicial administrative hearings or through the normal civil judicial courts.

The Core Theory

All of these programs are ultimately intended to either enhance or lessen the erosion in the demand for the commodity throughout the supply chain. Demand is influenced by a myriad of factors with many totally outside the control of the industry. In most evaluation models the effectiveness is measure is in terms of some form of advertising response function. Lets turn to Figure 2 to capture the essence of commodity promotion programs. The upper vertical axis is the price of the product and the bottom right horizontal axis is the quantity supplied or purchased. Expenditures on commodity checkoff promotions are on the left horizontal axis and, finally, a share of some element of the industry such as a major brand is on the bottom vertical axis. Demand for the product at a point in time and for a fixed set of conditions is captured with D1. With zero generic promotions and a fixed supply (S1) the industry is in equilibrium with the price (P1) and quantity (Q1) at point (a) where supply and demand intersect. One of the first important conditions is that even without generic promotions there will be a demand for the product. Also, a particular firm's share of the market is MS1 as illustrated in the bottom portion of Figure 2. If the advertising response is flat, the program should not exist. When generic promotions are now shown to have a positive impact on demand as reflected with the upward sloping generic response function in (II) of Figure 2, then demand shifts from D1 to D2 in the right part of Figure 2. If supplies are fixed for the time period, the demand shift leads to higher prices for the same level of per capita consumption. If supplies could also be adjusted in the same period, the supply with S2 may be more representative and the market equilibrium is at point (c). With either supply function once the generic response function is measured, one can estimate the dollar gains attributed to the promotions.

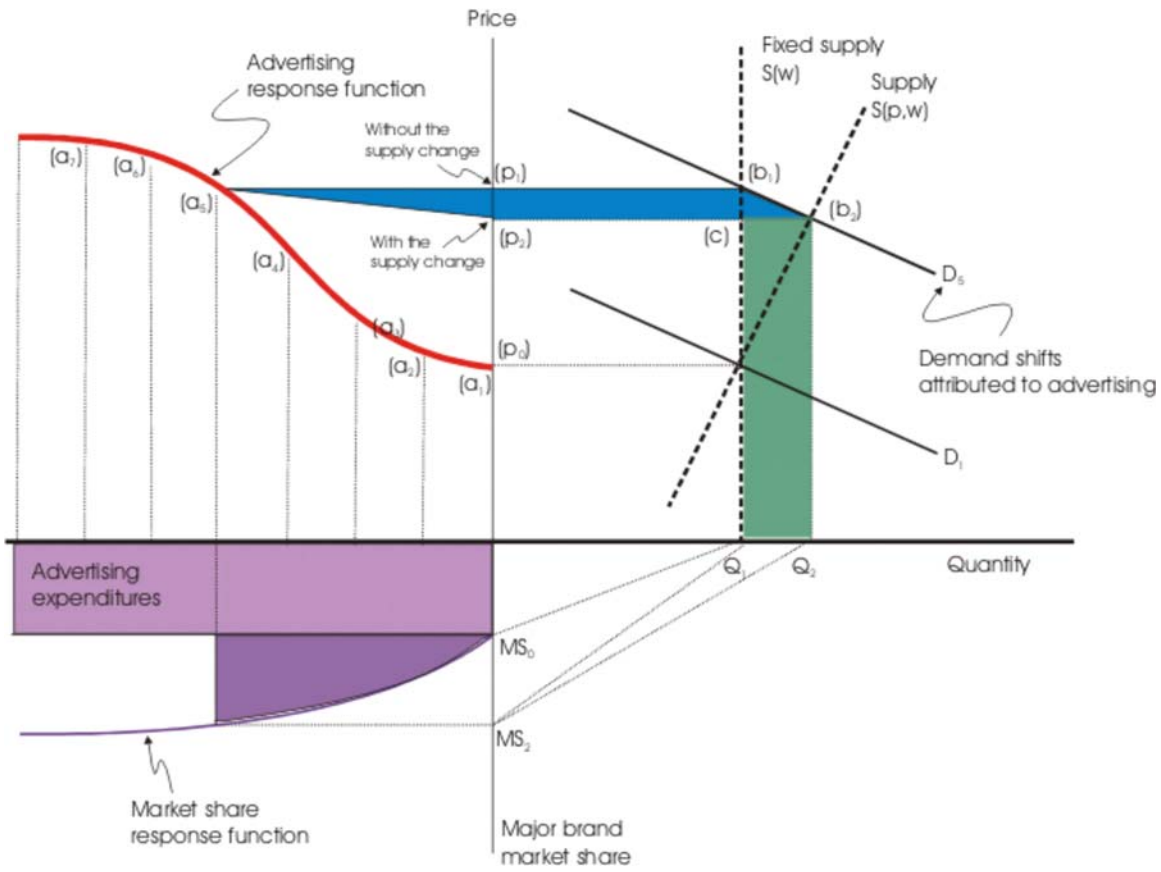


Figure 2. Core theory of commodity checkoff programms

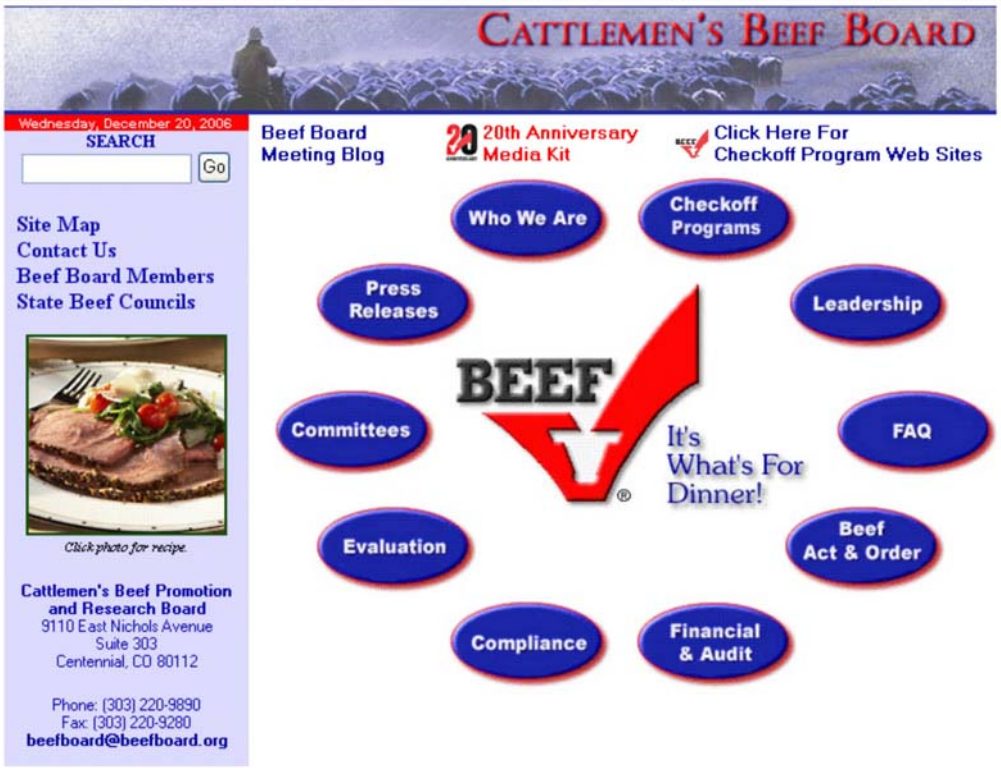
While the upper portion of Figure 2 shows the potential gains back to producers and first handlers, the lower portion points to potential issues in the supply chain. Generic promotions theoretically should be distribution neutral, indicating that it does not influence the shares in the supply chain but does grow the total demand. If generic messages favored one brand over another, one outlet type to another, regional distributions, or imported versus domestically produced goods, then an immediate equity issue arises as initially outlined in the left box of Figure 1. This is the point where many of the challenges to the U.S. system have been focused. Optionally, the generic messages should have no influence on the shares shown in the lower portion of Figure 2. Otherwise, the program faces opposition among groups across the distribution system. Most of these programs have shown empirical evidence of a positive advertising response rate.

Supply Chain Information from These Programs

In the U.S. system there are currently national generic programs for beef, pork, diary, lamb, cotton, mohair, watermelons, honey, potatoes, blueberries, popcorn, mushrooms, flowers, peanuts, avocados, mangos, and soybeans. Most other commodities have some form of state or voluntary program to support their industries. While the exact messages are as diverse as the individual commodities and the structure of the supply chain, the information can generally be grouped into the following: (1) maintaining general awareness; (2) introduction of new product; (3) presenting health benefits; (4) food safety dimensions; (5) product uses and packaging; (6) product sources; (7) countering miss-information; and (8) brand and supply chain partnering.

While space limits a thorough review, activities in the beef, honey, flowers and watermelon programs provide goods examples of the range of information coming from these types of information programs.

Figure 3a, 3b, 3c, and 3d show the web pages for each of these commodities. Since its inception in 1986, the beef industry has spent nearly $1.1 billion on generic promotions of beef. For the most part the messages target final consumers with national television ads addressing the desirability of beef and the safe use and preparation of beef. Convenience and new product forms have been recently emphasized. The Beef Board maintains an “in the black” web page ready to address BSE issues if the issue arises as was the case a couple of years ago. This pages provides detailed information about BSE for every point in the supply chain.



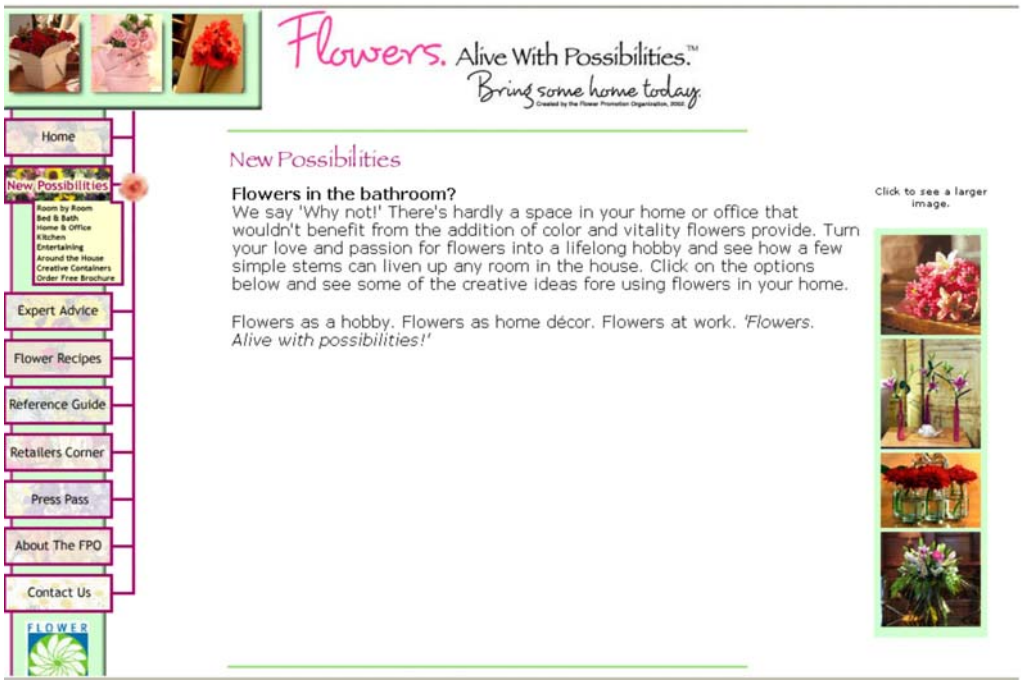


Figure 3a and 3b. Beef and cut-flower home pages.

Figure 3c and 3d. Honey and watermelon home pages.

Honey is a much smaller program for what is a complicated industry with production scatter throughout the U.S. Since honey is a less staple part of the diet, the honey programs provides considerable educational programs directed to consumers. Light honey is usually for table consumption while darker honey is used mostly for food ingredients. Hence, the programs must deal with several points in the supply chain. Unique among the checkoff programs, the honey checkoff supports a "honey locator" where potential buyers can turn to the web page to identify supply sources.

Watermelon checkoff is a small program and most consumers are aware of watermelons. This program concentrates on the variety of uses and recently discovered health benefits from consuming watermelons. Much of the information is through point-of-purchase materials rather than expensive television media. The messages also focus on the considerable change in the product form from whole melons to pre-cut packaging in fruit mixes that have taken place in the last several years.

For the last example, fresh cut-flowers is a product purchased for its aesthetic value ranging from self use to gifts, for calendar occasions, and for many non-calendar occasions. Nearly half of the U.S. flower supply is from imports and, as such, considerable coordinate in the supply chain is required given the highly perishable nature of the product. These generic promotions have focused on the pleasure of flowers for both gifts and self use and have targeted selected demographics. Among all of the U.S. commodities, this industry has historically showed the least willingness to cooperation with generic advertising among the distribution points in the supply chain. Per capita use of flowers in the U.S. is low and the potentials gains from a well designed generic promotion program are quite high.

Final Observations

Information is essential to any agricultural industry and in the U.S. commodity checkoff programs are important instruments used to support the demand and distribution of the products as they move through the distribution channels. Their importance depends on the structure of each industry and the attitudes of the each commodity. Where brands dominate in the supply chain, the need for generic programs as generally less. Yet one can find many U.S. food sectors with both strong generic and brands programs existing jointly. For the most part, the U.S. programs have been successful in enhancing demand and generating reasonable rates of return. Yet, most of the programs have dealt with legal challenges relating to the mandatory nature of the programs. One commodity group even shut down it programs because of prohibitive legal costs. These programs are an essential part of the U.S. food system and will likely remain so for most of the existing programs. One of the major challenges is dealing with the cost sharing across the supply chain where many of the benefits are captured at points beyond the farmgate.

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