Agenda

• What is Advertising?
• History
• What they do
• How they work
• Examples
• Facts & Stats
• Advantages
• Disadvantages
• Legal issues
• Conclusions
• Q&A
What is Advertising?

• The main objectives of advertising are:

• To increase the usage of a certain product and hence acquire more orders.

• Create new customers and increase brand recognition
What is Advertising?

• Obtain feedback from customers regarding a certain product.

• Indicate introduction of new products or replacement of old ones.
History

- 1937: enactment of Agricultural Marketing Agreement Act by Congress.
- Up to 1990, 30 commodity boards had been established by Acts of Congress.
- But…
• In the 1990’s, legislation that forced producers to make mandatory contributions for generic advertising was weakened.

• The Court found some of these commodity boards unconstitutional.

• So…
History

- ...In 1996 the Federal Agricultural Improvement and Reform Act was voted through by Congress.
- Strengthened the original Act of 1937.
- Authorized creation of check-off generic advertising programs.
What they do

• Marketing orders set prices and other conditions for the sale of certain goods.

• Goals: increase demand, sales and prices.
What they do

- Increase the size of the pie without increasing the share of the pie for any one producer.

- Check-offs are organizations which collect a mandatory tax from producers of a commodity.
How They Work

- Must be for specific commodities.
- Responsibility of USDA to initiate.
- Run by Federal and State organizations.
How They Work

• Need at least 40% of producers of specific commodity to participate to initiate referendum.

• Must have 65% approval of producers that participated.
How They Work

• Fund advertising, sales promotion, & research.

• Ensure quality regulations with inspection.

• Standardize containers and packs.
How They Work

• Control supply, volume, & production.

• Prohibit unfair trading practices.
Examples

- http://www.youtube.com/watch?v=PJFutyUrIlo&feature=player_embedded
- http://www.youtube.com/watch?v=OH_vjpQdB3Q
- http://www.youtube.com/watch?v=gvCMCAFmsuY
- http://www.youtube.com/watch?v=31yqeBgt5r0
- http://www.youtube.com/watch?v=A398VraSBwY
- http://www.youtube.com/watch?v=IyNpEqTM9sY
- http://www.youtube.com/watch?v=T4R4bYzN0QA
- http://www.youtube.com/watch?v=OLSsswr6z9Y
- http://www.youtube.com/watch?v=n6G7MuKDo6I
- http://www.youtube.com/watch?v=UmPwL1YuIMA
Examples
Examples

Keeping Track
Examples

got milk?
Examples

SURE...
You're right in liking MEAT

Swiss Steak... put it in the pan... turn on the heat
and smell its steaming fragrance as it simmers, bubbling
and browning... sizzling in its own gravy.
That's hearty flavor for you.

But meat offers far more than flavor. All meat, regardless of cut
or kind, is a generous supplier of complete protein.
the kind of protein children need for growth —
the kind we all must have for life itself.

AMERICAN MEAT INSTITUTE
Headquarters, Chicago - Members throughout the U.S.
Examples

The Other White Meat®

Don’t be blah.®
Examples

This much Florida Orange Juice every day
Examples
Examples
Facts & Stats

• Upwards of $1 billion spent each year on generic advertising promoting commodity goods in the U.S.

• Each $1 spent advertising agricultural commodities yields an average of $3 to $6 of additional revenue.
Facts & Stats

- Annual expenditures on generic advertising:
  - Beef: $45 million
  - Cheese: $47 million
  - Florida orange juice: $24 million
  - Pork: $14 million
  - Cotton: $15 million
Facts & Stats

• California, state with the highest number of programs.

• 60 active commodity boards in CA.

• Value of agricultural commodities covered by state marketing programs approx. $15.6 billion.
Advantages

• Very effective at creating revenue.

• Does increase primary demand.

• Ensures welfare of agricultural economy.
Advantages

- Increase visibility and consumption of healthier products i.e. milk and raisins vis-à-vis soda and chips.

- Can help keep prices of certain branded goods low (pharmaceutical industry)
Disadvantages

- Difficult to maintain; lack of incentive alignment.
- Possible decrease in consumption of substitute products.
- Free Rider Effect: producers of the same commodity have incentive to not contribute, particularly smaller ones.

Prisoners dilemma...
Disadvantages

- Free Rider Effect:

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<tr>
<td>don’t contribute</td>
<td>$16</td>
<td>$8</td>
</tr>
</tbody>
</table>
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Disadvantages

- Free Rider Effect:

- Foreign companies that export to U.S. free ride off advertisement of commodity.
Disadvantages

• Decrease in revenue of small companies in the long-run.

• Legal controversy…
Legal Issues

• Several producers have refused to pay commodity boards, their cases have gone to district courts and even the Supreme Court.

• Small beef producers claim that the check-off program only benefits large producers.
Legal Issues

- In 2004 a Federal Appeals court ruled that the Beef, Pork, and Milk programs violated First Amendment rights of free speech and association.

- This sparked dozens of challenges to mandated marketing programs.
Legal Issues

• However in 2005 the Supreme Court ruled in favor of beef marketing programs, claiming that they did not violate free speech, rather they were considered protected “government speech.”
Legal Issues

• Despite this ruling, there are still over 70 cases being litigated, the outcomes will be determined by the specific details of the marketing programs.

• The legal future of these programs is still uncertain.
Conclusion

• Does generic advertising work?
  • Yes!

• Does it have faults?
  • Yes!

• But…
Conclusion

• Advantages outweigh disadvantages.

• Especially in the midst of an economic recession.
Questions and Answers