

GENERIC ADVERTISING

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EEP 142 Spring 2009



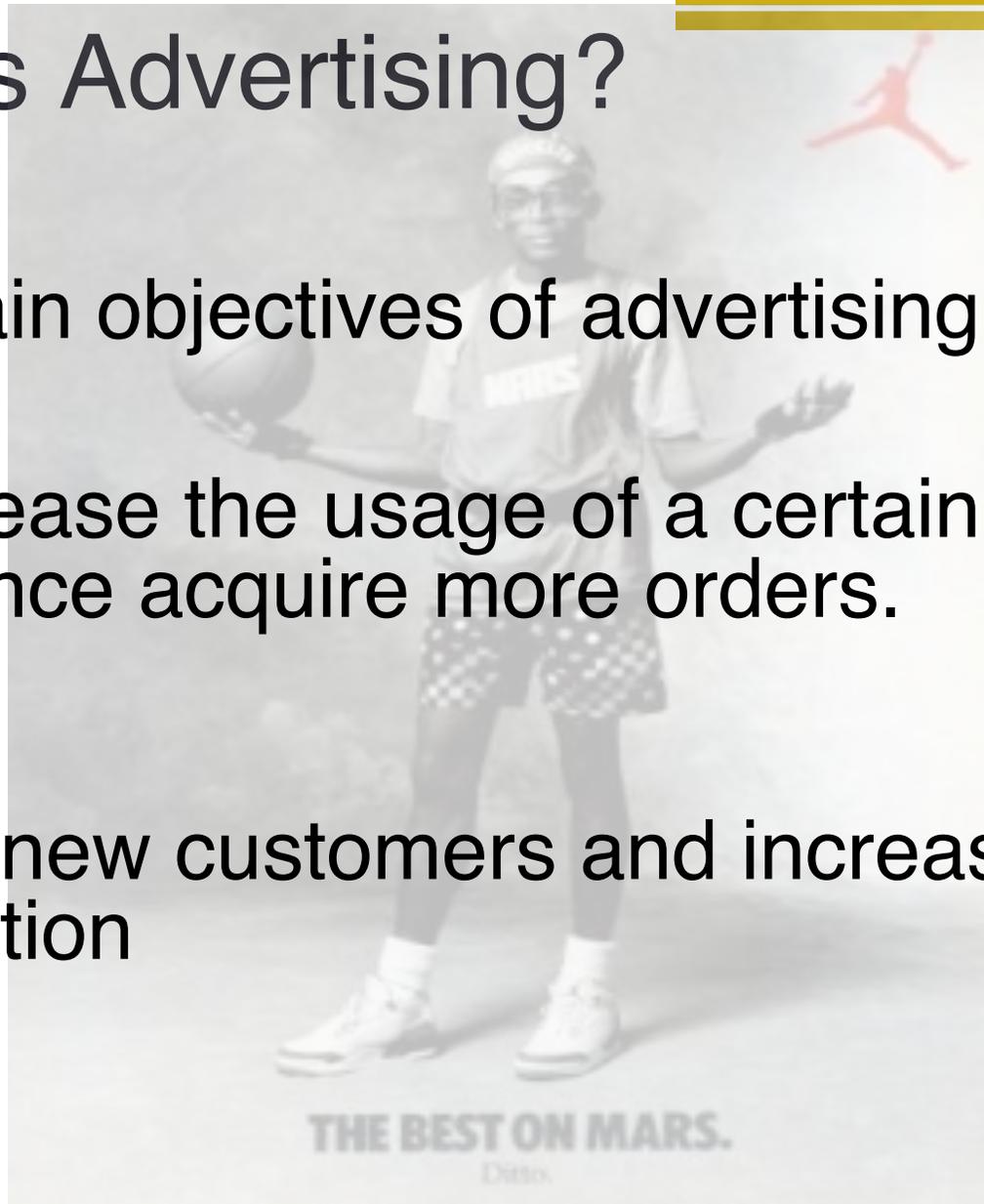
Agenda

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



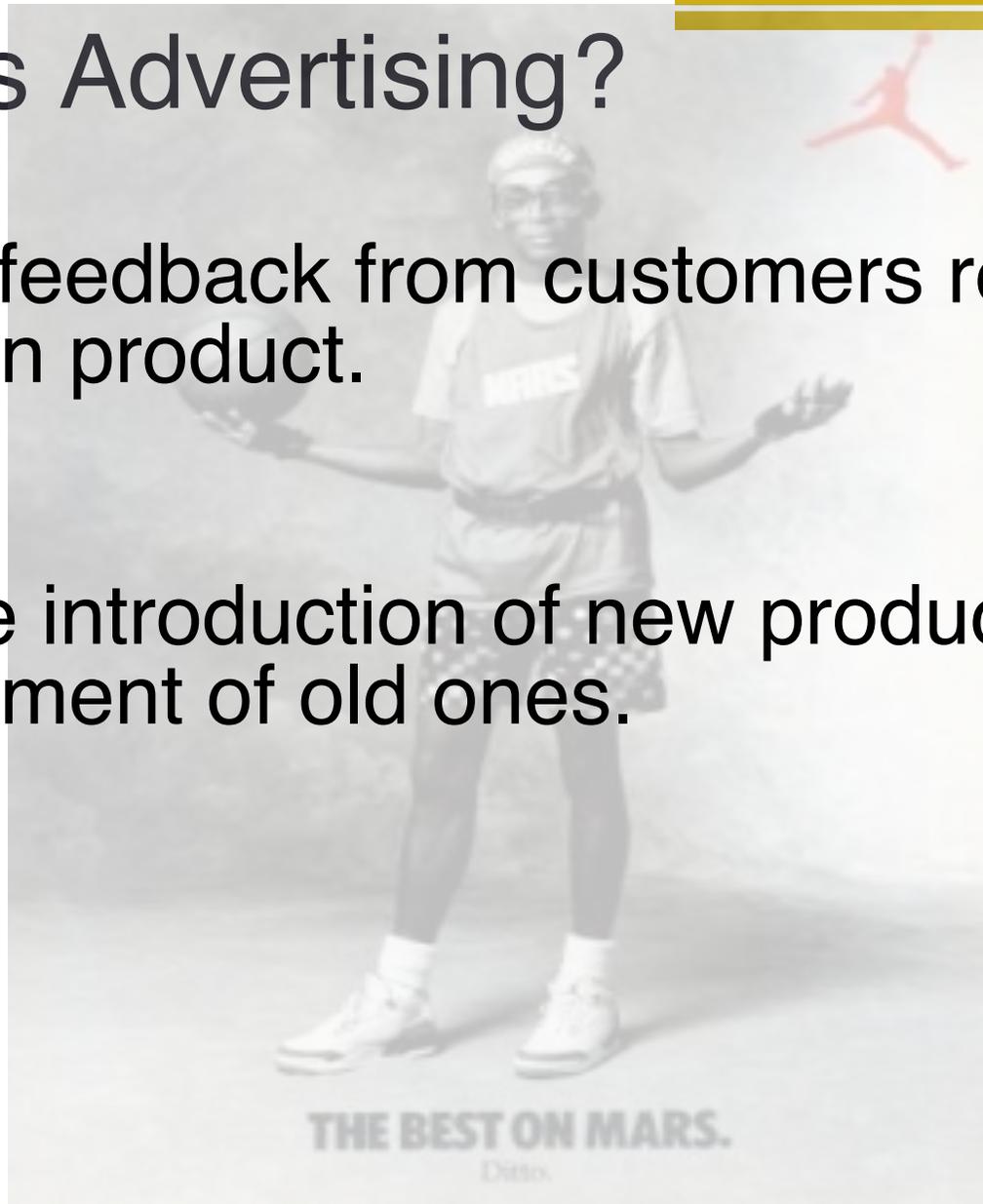
What is Advertising?

- 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



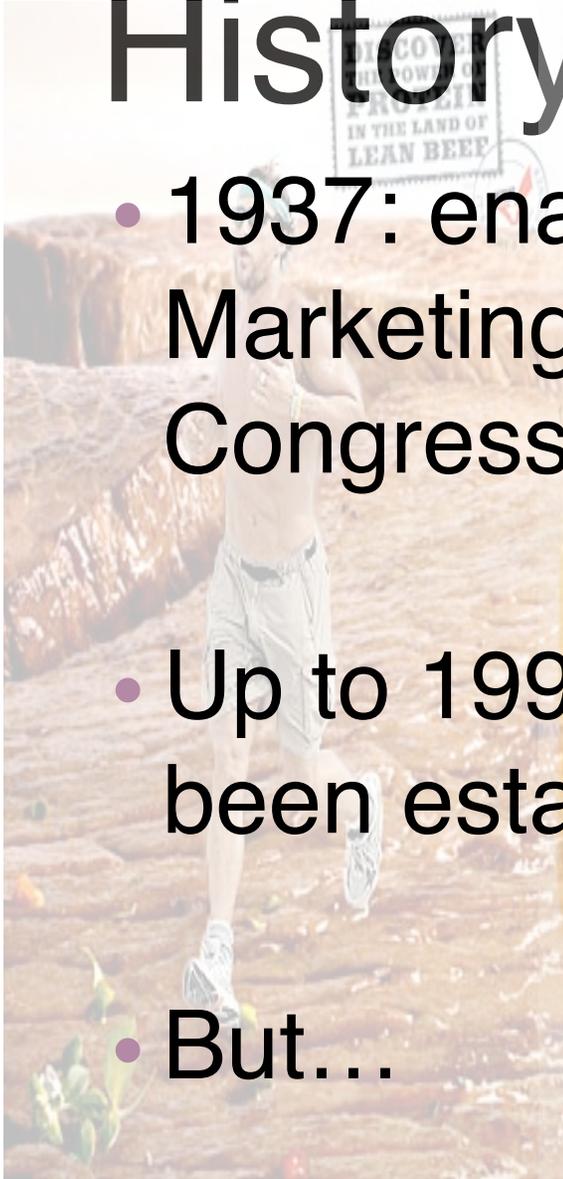
What is Advertising?

- Obtain feedback from customers regarding a certain product.
- Indicate introduction of new products or replacement of old ones.



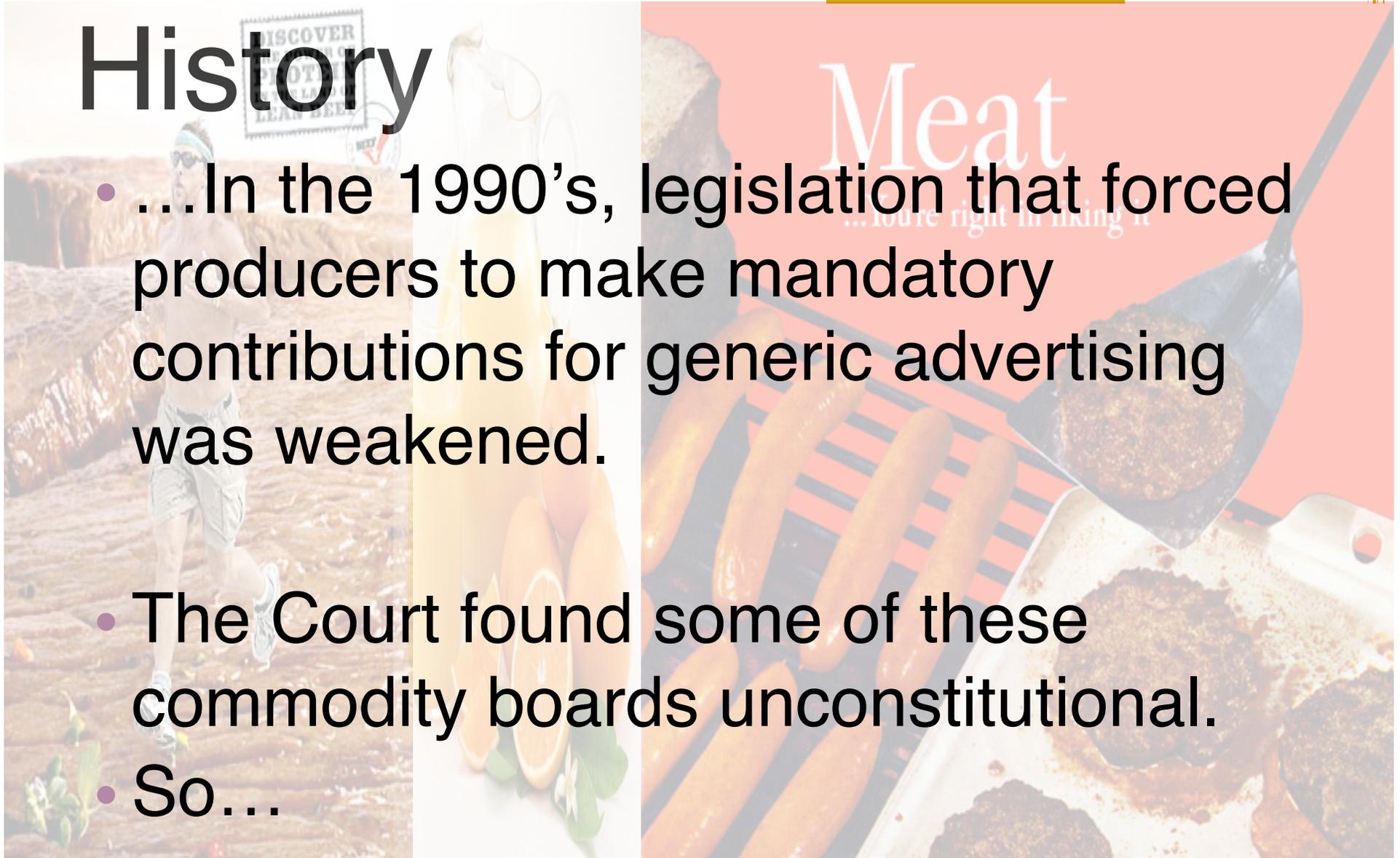
History

- 1937: enactment of Agricultural Marketing Agreement Act by Congress.
- Up to 1990, 30 commodity boards had been established by Acts of Congress.
- But...



History

- ...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

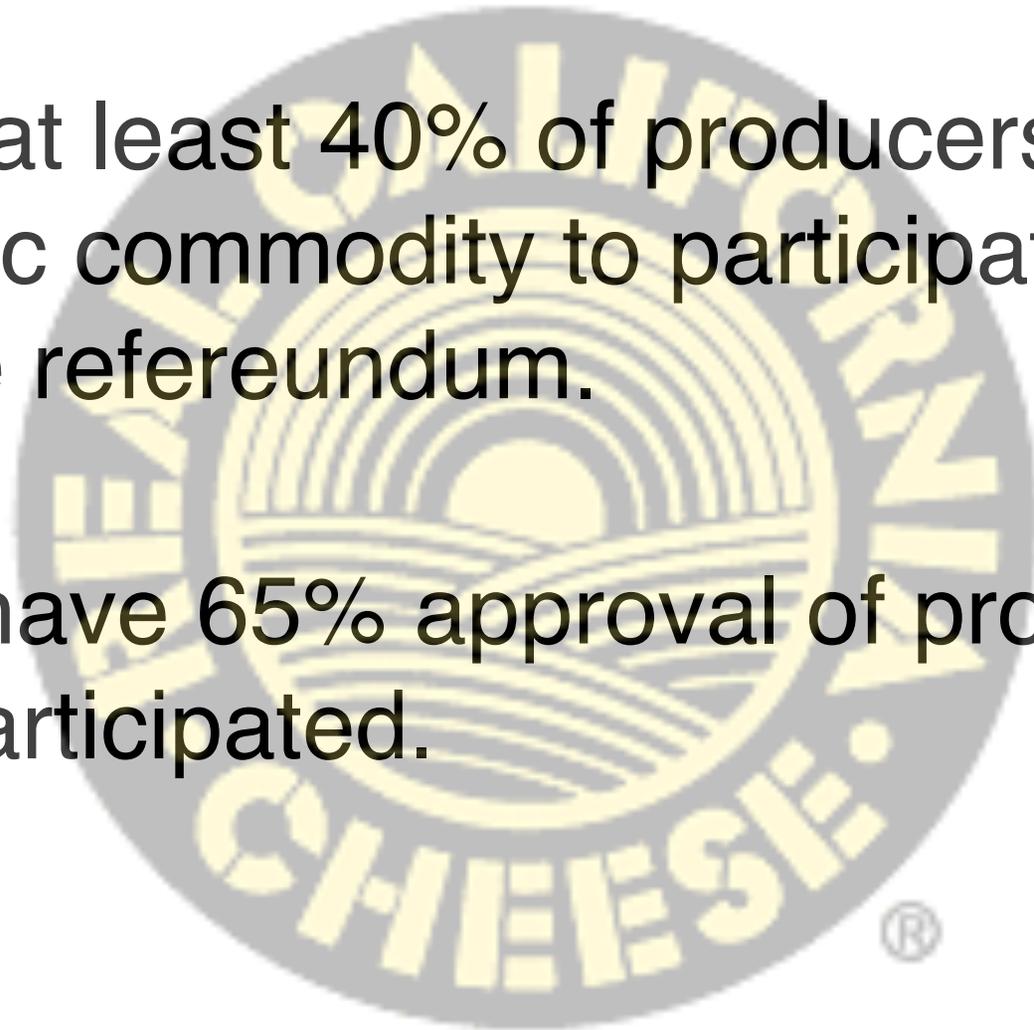
- Increase the size of the pie without increasing the share of the pie for any one producer.
- Check-offs are organizations which collect a mandatory tax from producers of a commodity.

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=lyNpEqTM9sY>
- <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=UmPwL1YulMA>

Examples



Examples

Keeping
Track



AMERICA'S COTTON PRODUCERS AND IMPORTERS.™ Service mark/trademark of Cotton Incorporated. © 2008 Cotton Incorporated.

Examples



Examples



Keeping
Track

Examples

Keeping
Track

SURE...
You're right in liking **MEAT**

Roast of beef cut for roasts,
square meat for steaks.

Swiss Steak...put it in the pan...turn on the heat
and sniff its steaming fragrance as it simmers, bubbles and
browns...smothered 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 need have for life itself.

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

The seal means that all certified processors
meat in the advertisement are acceptable to the
Council on Food and Nutrition of the American
Medical Association.

Examples



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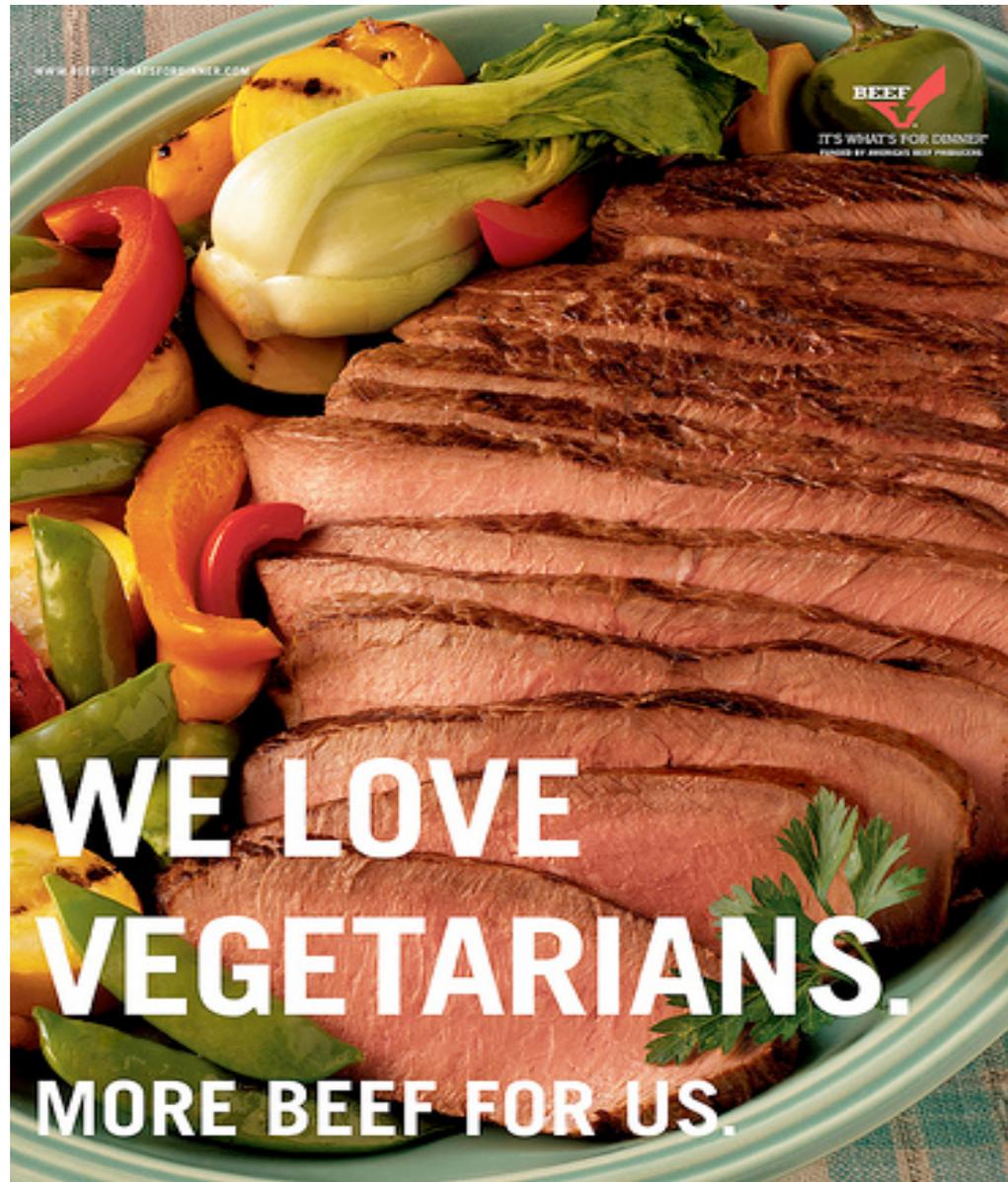
Don't be blah.®

Examples



Examples

Keeping
Track

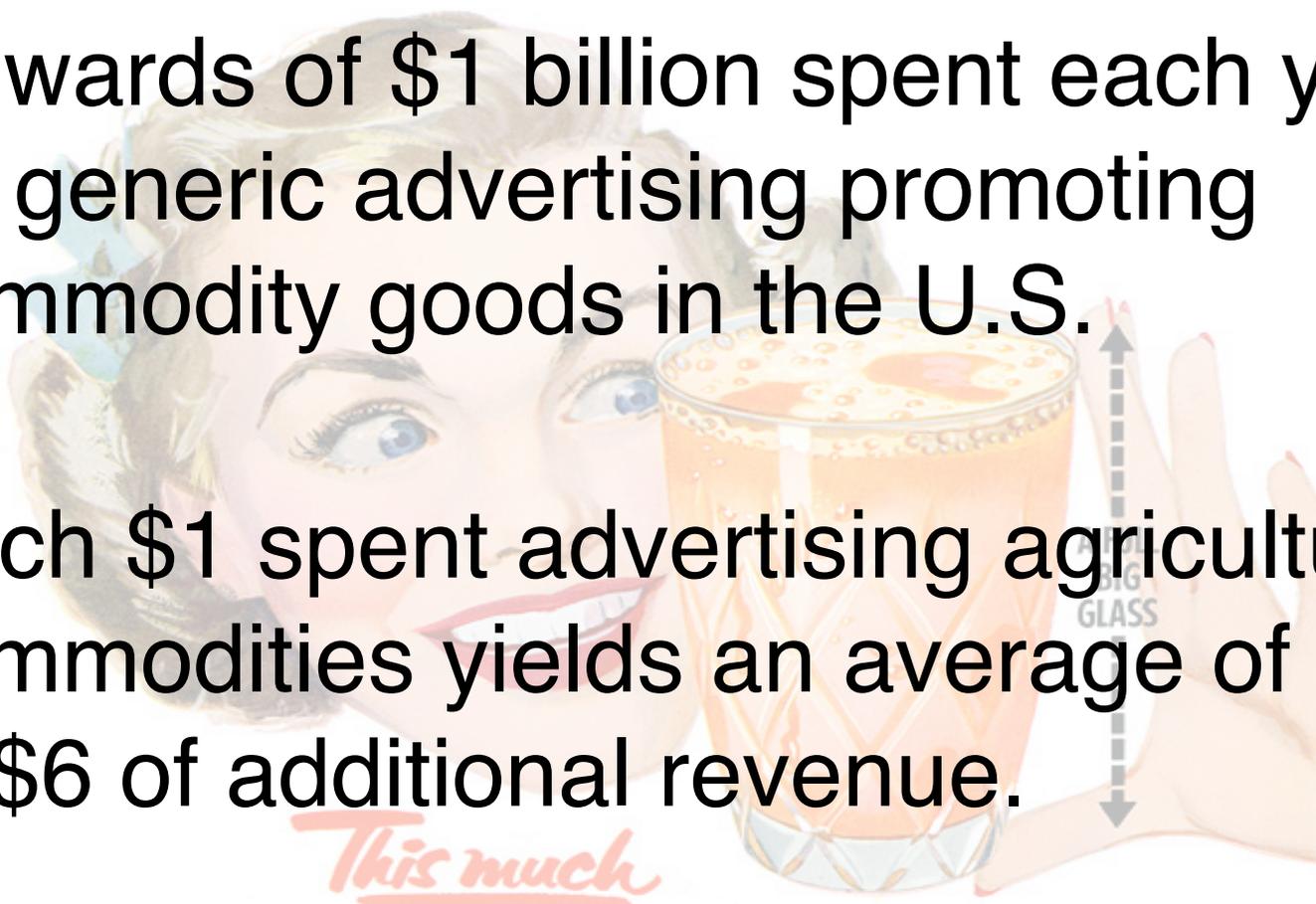


Examples



Facts & Stats

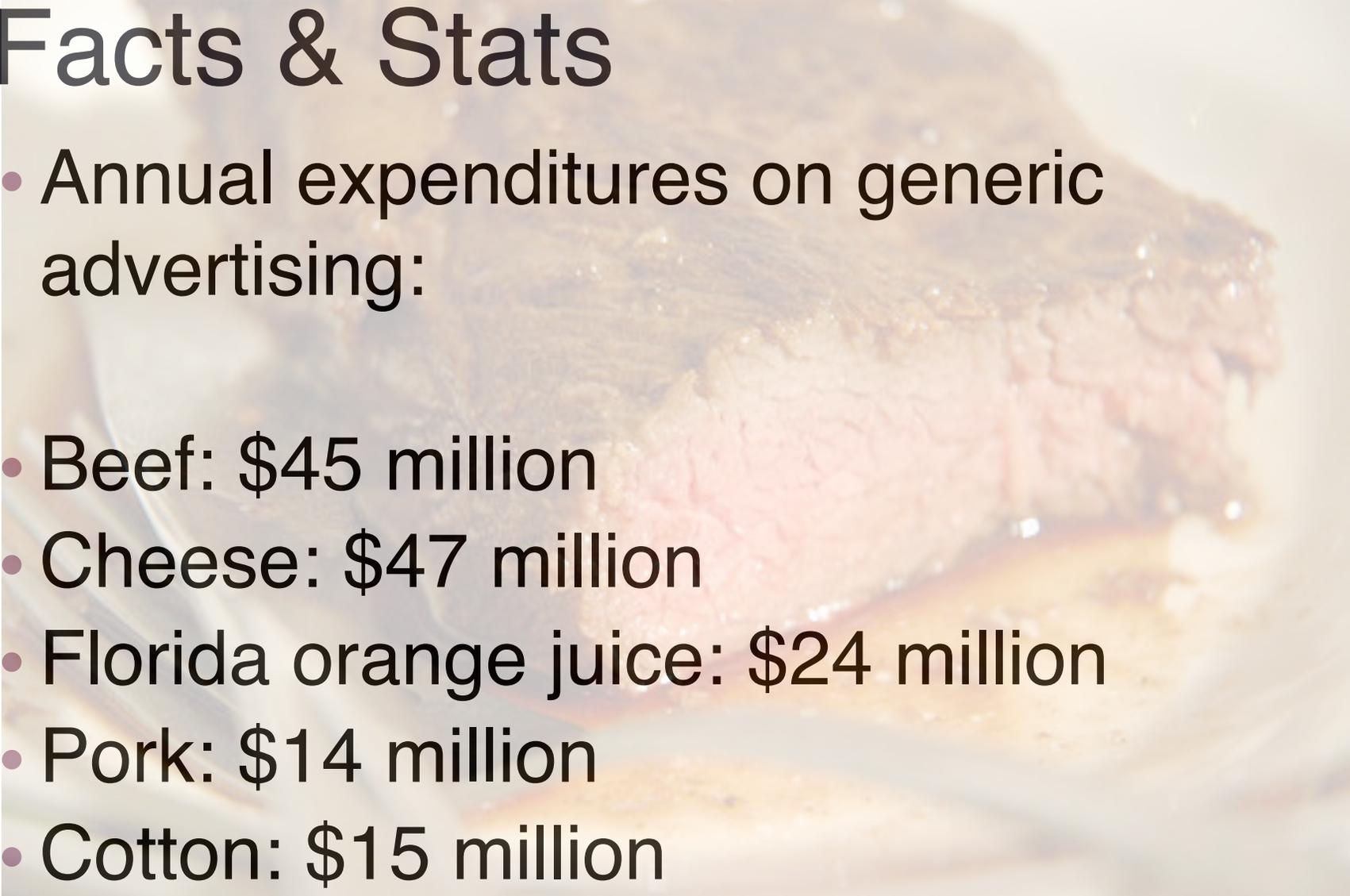
- Upwards of \$1 billion spent each year on generic advertising promoting commodity goods in the U.S.
- Each \$1 spent advertising agricultural commodities yields an average of \$3 to \$6 of additional revenue.



*This much
Florida Orange Juice every day*

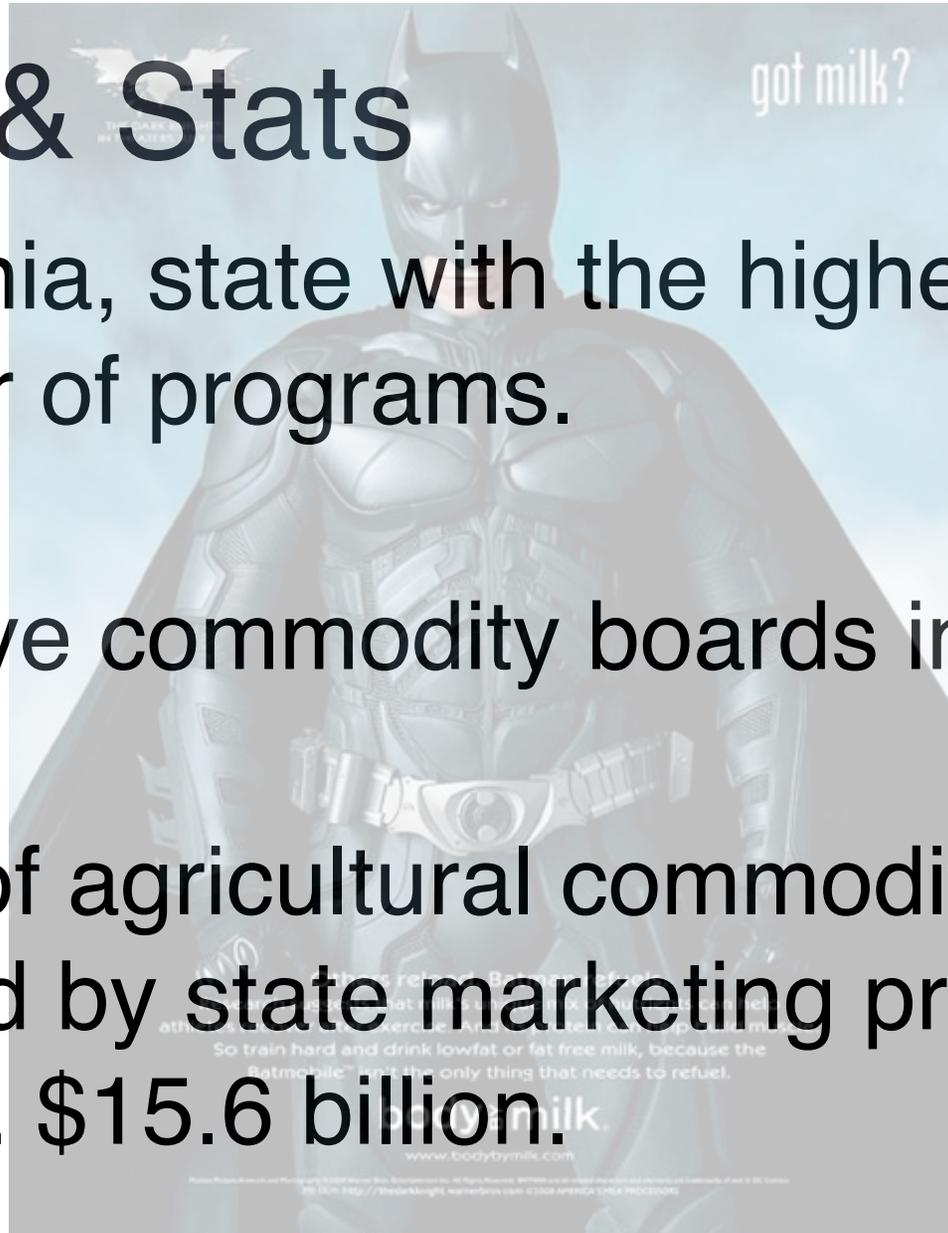


Facts & Stats

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

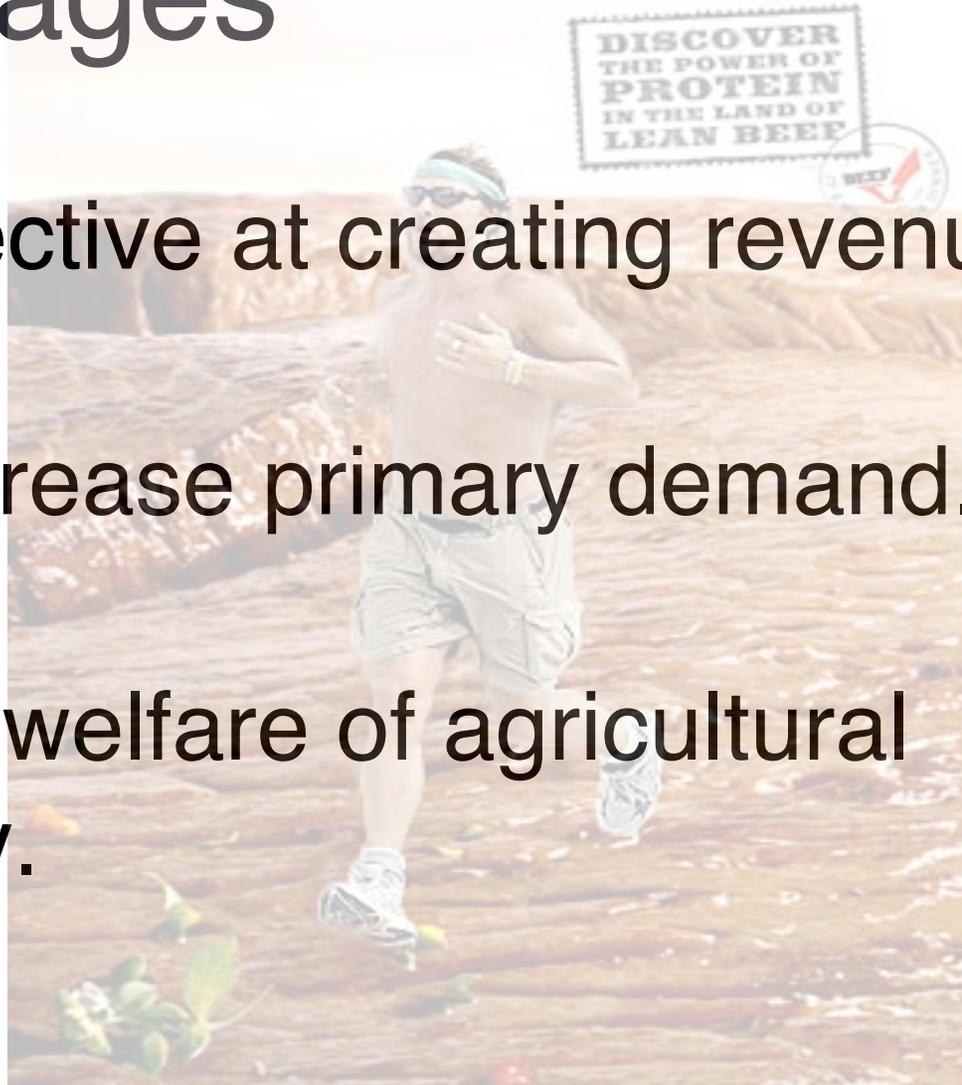
Facts & Stats

- 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.



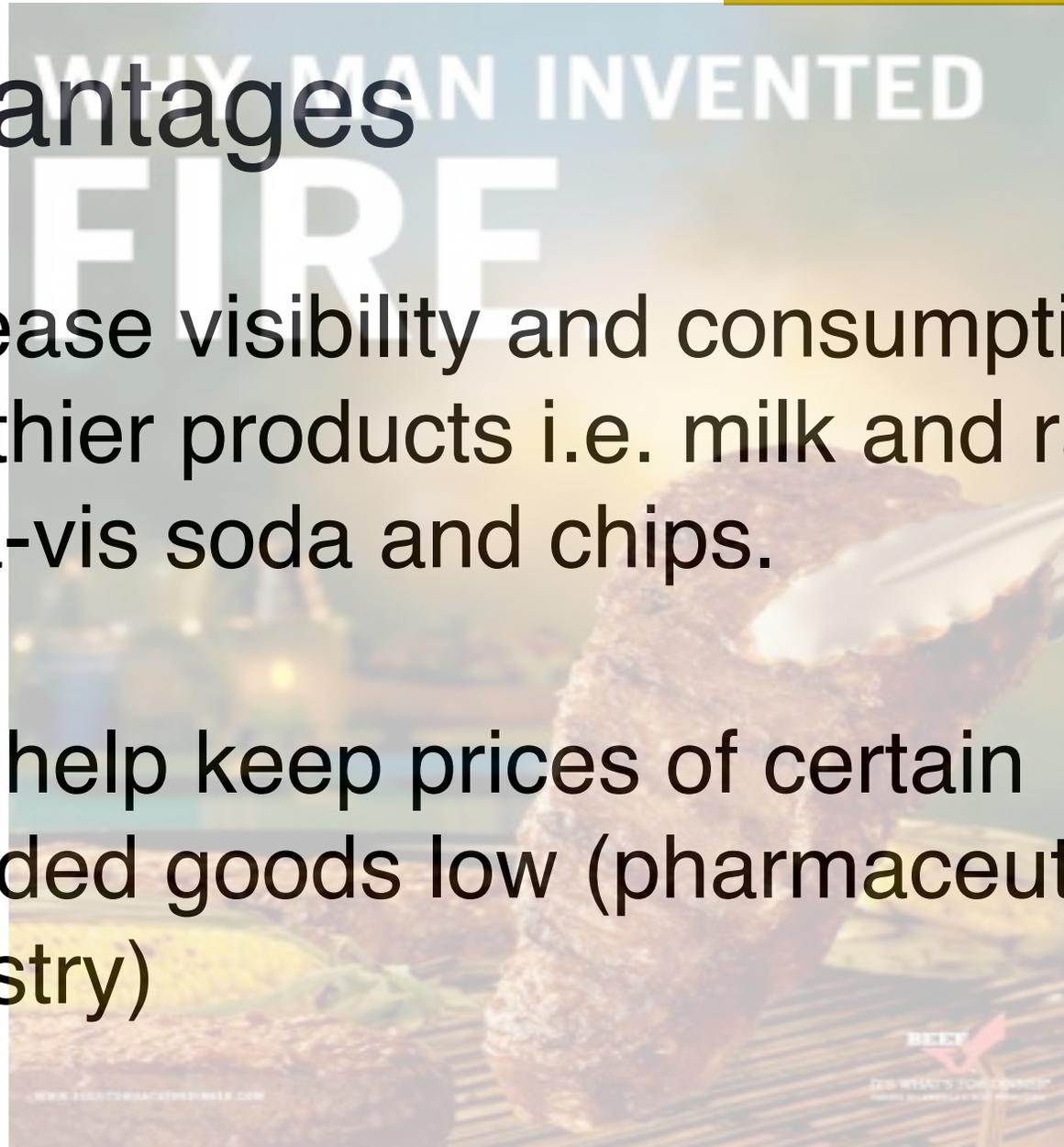
Advantages

- Very effective at creating revenue.
- Does increase primary demand.
- Ensures welfare of agricultural economy.



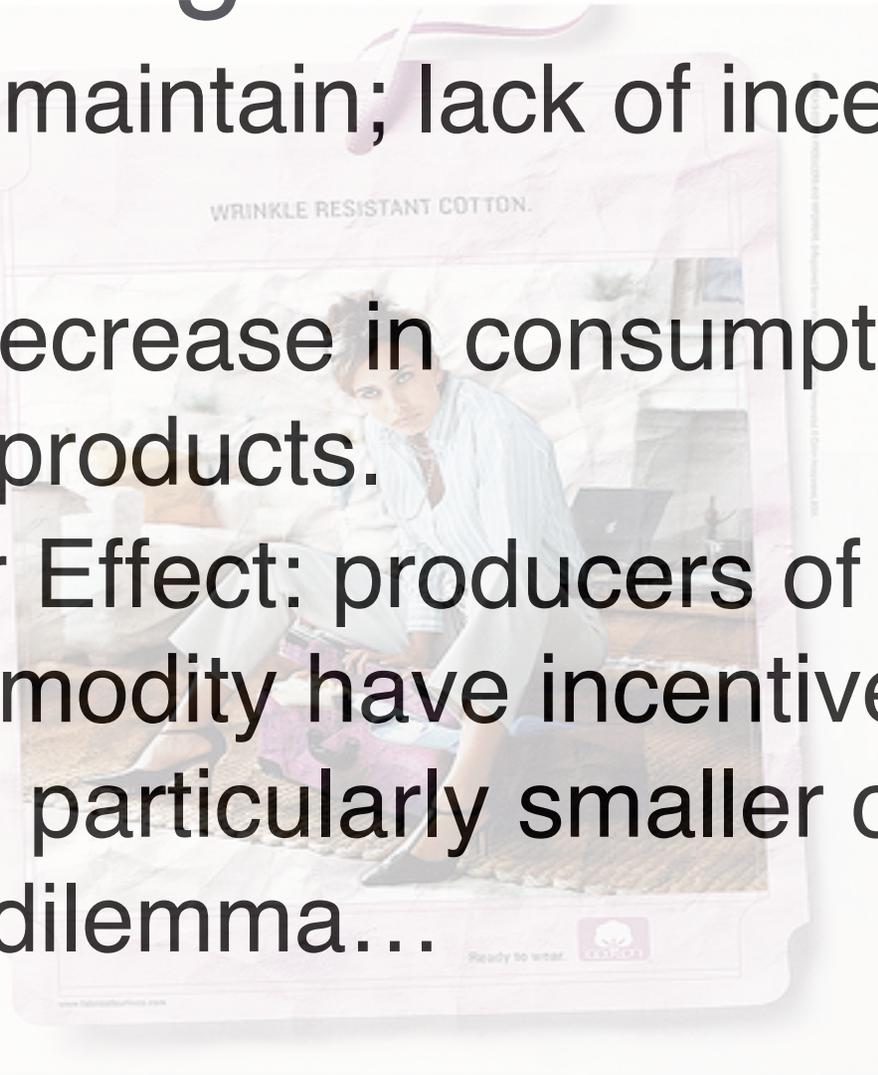
Advantages

- 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:

...You're right in liking it

Producer 1

		contribute	don't contribute
Producer 2	contribute	\$16	\$8
	don't contribute	\$18	\$10

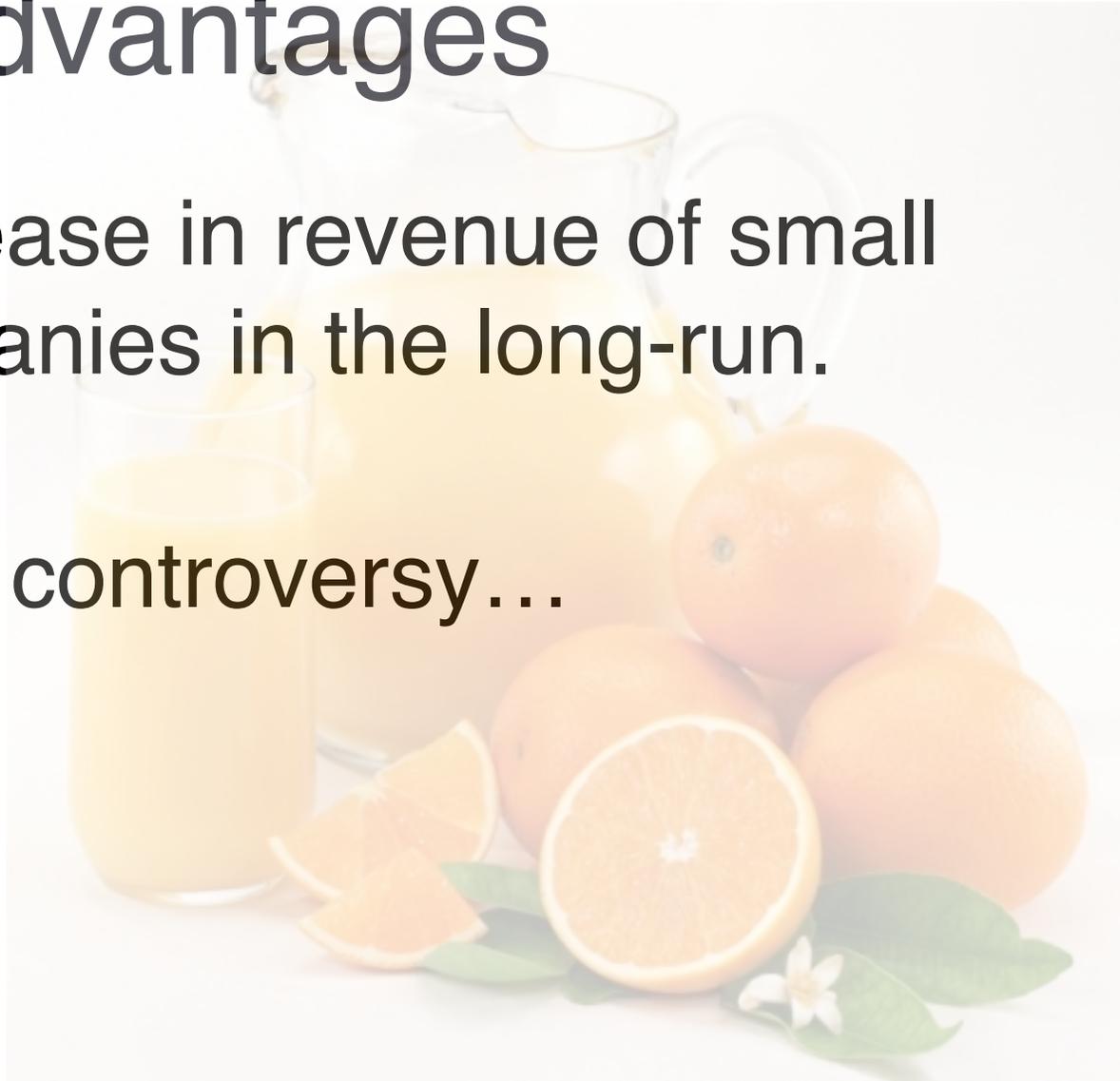
The table illustrates the Free Rider Effect in a two-player game. The top row represents Producer 1's strategies (contribute or don't contribute), and the left column represents Producer 2's strategies (contribute or don't contribute). The payoffs are shown in the cells. A diagonal line from the top-left to the bottom-right indicates that the outcome where both contribute (\$16, \$16) is the socially optimal outcome. The outcome where both don't contribute (\$10, \$10) is the outcome that would occur if both act selfishly. The outcome where Producer 1 contributes and Producer 2 doesn't (\$8, \$18) is the outcome that occurs when Producer 1 is a free rider. The outcome where Producer 1 doesn't contribute and Producer 2 does (\$18, \$8) is the outcome that occurs when Producer 2 is a free rider. A yellow star is placed in the bottom-right cell (\$10, \$10) to highlight the socially optimal outcome.

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.

The incredible edible egg™

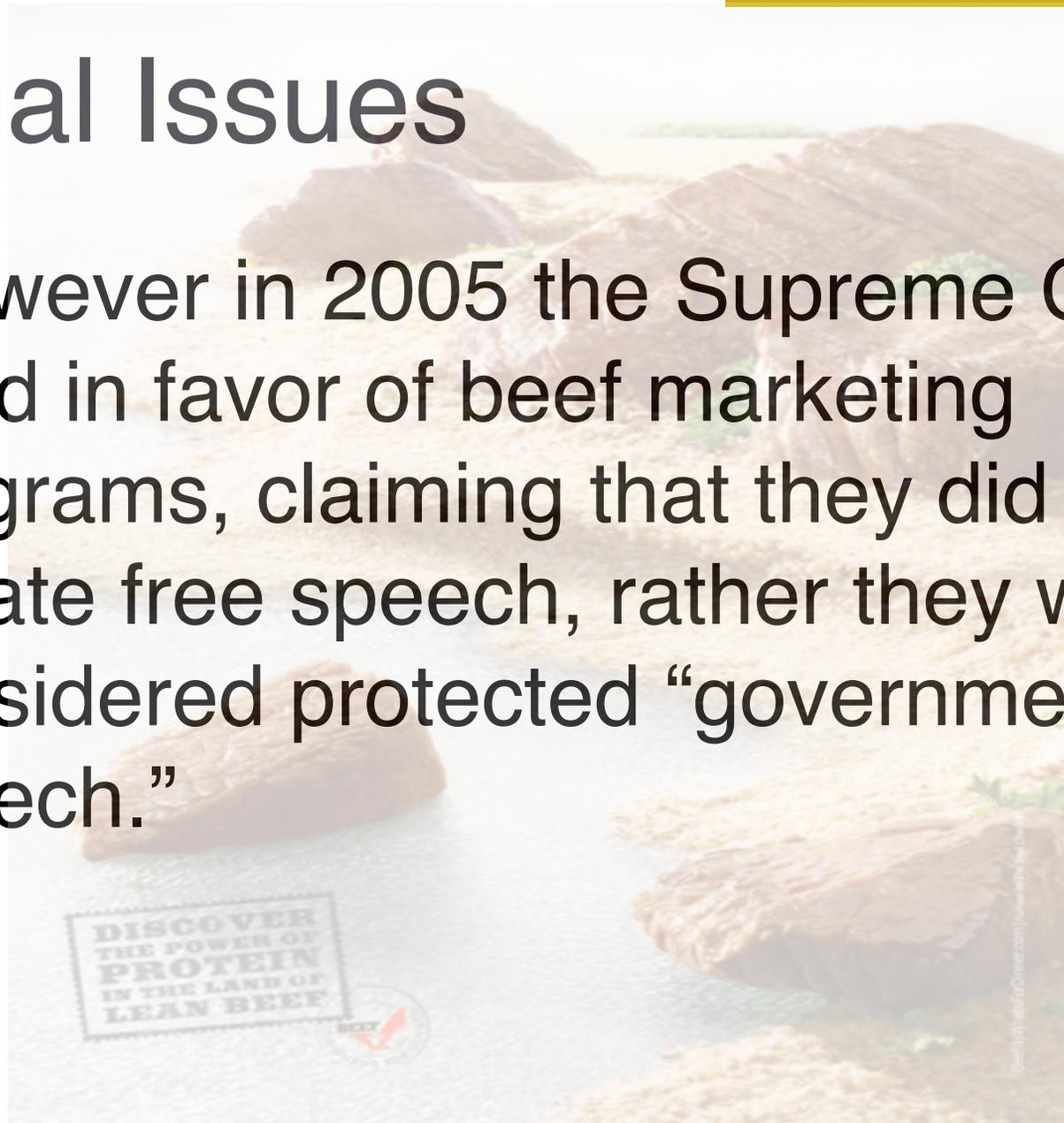
- Small beef producers claim that the check-off program only benefits large producers.

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.”

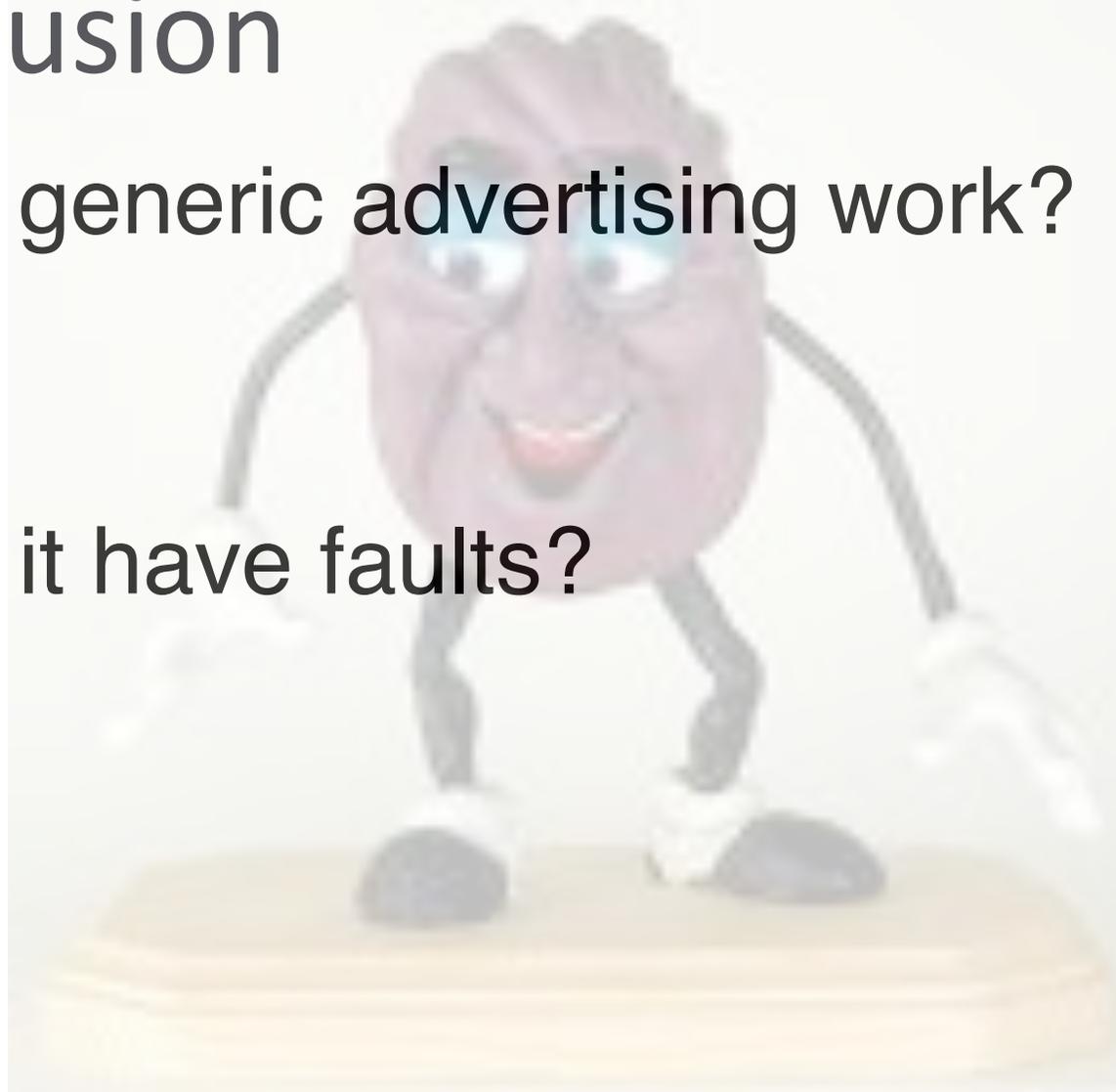


Legal Issues

- 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.

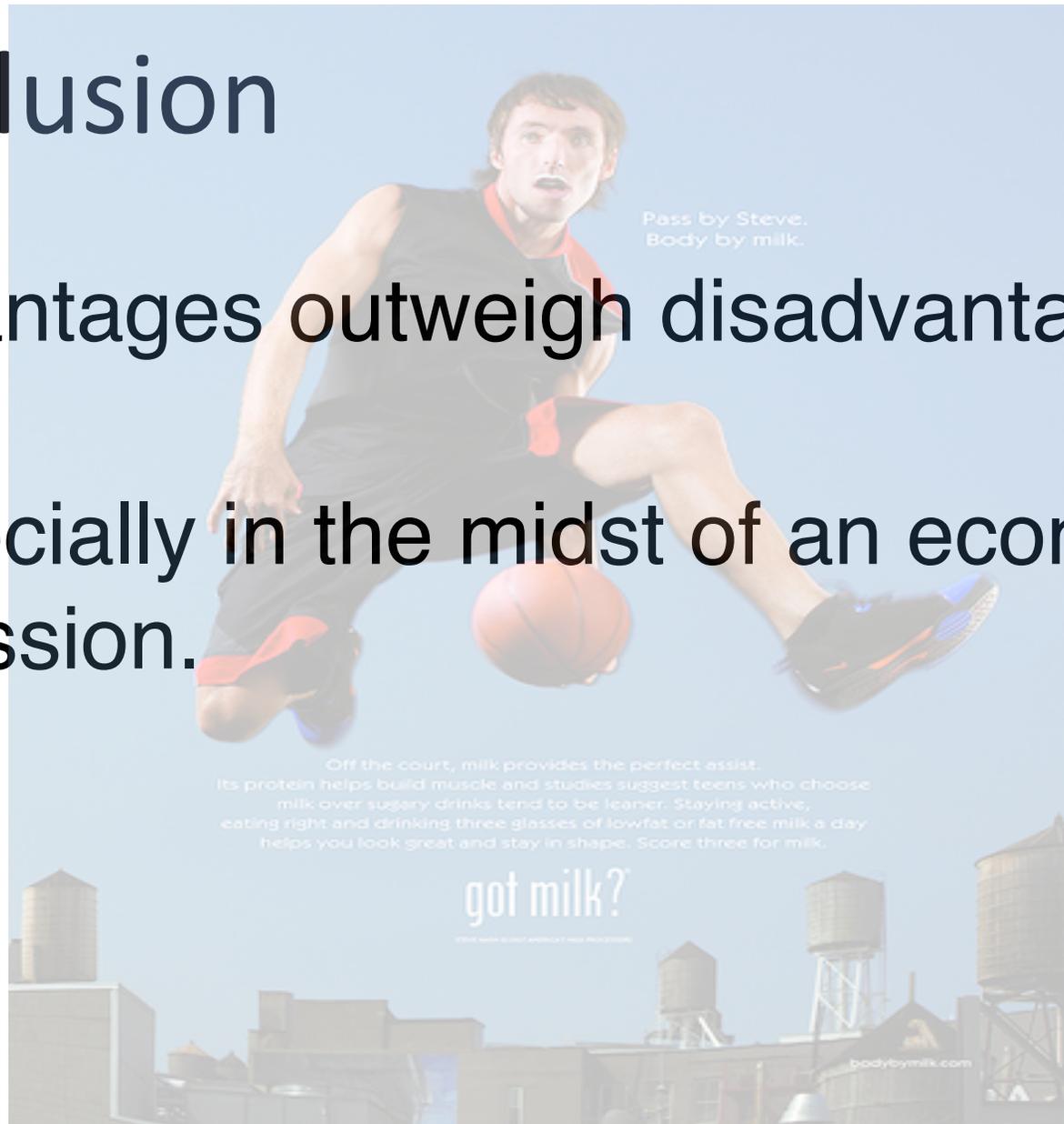
Conclusion

- 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

