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Commodity Checkoff Programs and Generic Advertising

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"Beef. It's What's for Dinner." "Got Milk?" "Pork. The Other White Meat." "Flowers. Alive with Possibilities." We have all heard and seen these and similar promotional messages over the years on television, over the radio, and in magazines. Often labeled *generic advertising,* these messages are government-sanctioned but producer-funded efforts to enhance the demand for farm 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) to promote the demand for the homogeneous (similar) product. These advertising messages are funded through an institutional structure known as commodity checkoff programs. Why do the checkoff programs exist? What are the major functions of checkoff programs? What are the economic issues associated with these programs? Have they generated any economic benefits?

The Purpose of Commodity Checkoff Programs

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. So even without any additional generic advertising, most checkoff commodities would still be consumed at some level. For example, some amount of milk would still be purchased if all "Got Milk" commercials were stopped! The purpose of advertising, of course, is to generate additional purchases of the product being advertised. How advertising affects consumer purchasing, however, depends on the type of advertising to which the consumer is exposed. Brands and brand advertising messages are intended to direct consumers to a specific product identified within a particular commodity category. To the extent that brands have common attributes and are substitutable, brand messages may increase the total demand for a commodity. Brand messages are intended to highlight differences among product forms making up the commodity group rather than their similarities.

Generic advertising and promotions, on the other hand, 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). Brands exist when real and/or perceived differences can be achieved. For example, the successful promotion of Angus Beef as a brand requires that consumers perceive the unique attributes of the beef from that breed of cattle. The result is some level of brand identification. A celebrity endorsement may create a perceived difference that translates into brand identity whether or not such a difference actually exists. Within many commodity sectors there is limited product differentiation from producer to producer so that achieving substantial growth in demand through branding generally is not feasible. In this case, demand growth is more readily achieved through enhancing the total demand for the commodity through generic advertising. Of course, demand growth does not assure profitability but is an essential component.

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 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 & 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 consumers' need for information in general and the ability of the product to achieve some level of brand identity. The meat industry is a good example of this concept where about 80% of beef is non-branded, while more than 80% of poultry is branded (Ward & 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. 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 for generic advertising messages is precisely the intent of the national legislation for supporting commodity checkoff programs and an important objective of many federal and state marketing orders. Commodity checkoff authority granted through the federal enabling legislation provides the vehicle for collecting assessments to fund generic advertising programs.

Currently, there are 17 active national generic promotion programs for agricultural goods and an additional 35 or more operating under federal market orders (AMS-USDA, 2005). Also, there are many additional state programs designed to promote agricultural commodities. Similar programs are also in operation for many nonagricultural goods ranging from tourism to propane. Common characteristics among most of these programs include efforts to maintain product identity through the supply chain from producer to consumer and the need to provide information to existing and potential consumers continually. A number of these generic advertising programs require mandatory participation by all producers of the commodity through an assessment on those producing and supplying the product and are subject to close government oversight.

The Functions of 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. A problem within one or more of these four functions is a signal for failure.

Organization and Administration. 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 one 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 those of 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

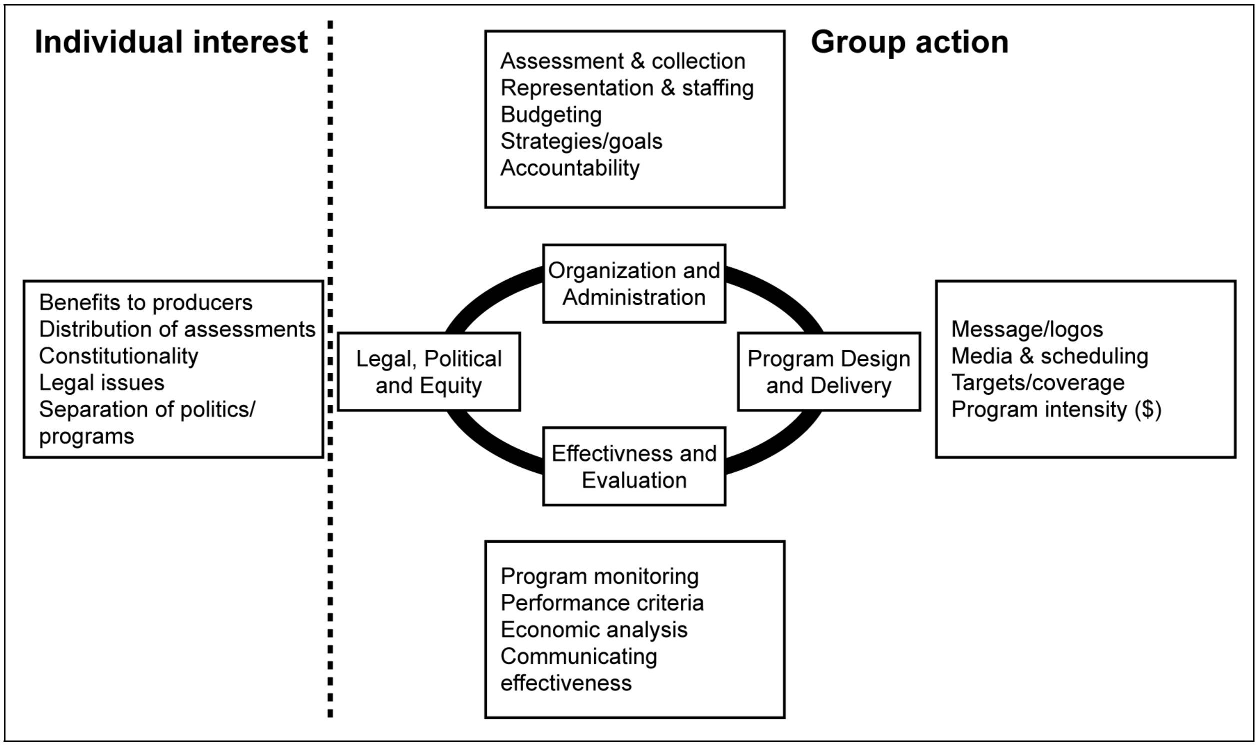

Figure 1. Functions of commodity checkoff programs.

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.

Program Design and Delivery. 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 strap-lines 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 level 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. The 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 within industries like citrus, where both fresh and processed products are important, and beef and soybeans, where both domestic and export market promotions are funded. Competing interests within a commodity sector often create a challenge in designing and delivering generic advertising messages.

Effectiveness and Evaluation. 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 messages 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 level and then attempt to determine how gains are distributed through the vertical market system back to producers. The measurement of the distribution of gains through the supply chain is a contentious issue and is considered in more detail in the article by Wohlgenant in this issue of *Choices*.

Legal, Political, and Equity Concerns. 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.

Checkoff programs are all about the dissemination of information, and in the last decade, many of these commodity programs have been challenged, not on the equity, but on the constitutionality of the programs relating to speech. Some have argued that mandatory assessments for speech purposes violate the individual's right to freedom of speech under the 1st Amendment to the Constitution. These legal challenges based on the freedom-of-speech premise have worked their way through the court system for many years. A recent Supreme Court ruling on the beef checkoff program basically concluded that the program is government speech and, hence, not subject to the 1st Amendment argument. More details on this and other legal issues related to checkoff programs are highlighted in the article by Crespi and McEowen in this issue of *Choices*. Time will tell if the beef checkoff ruling is the end of the legal challenges to commodity checkoff programs. Historically, the record would suggest that it is not.

Figure 1 reflects the functions common to all checkoff programs, as well as group action versus individual interest. The functions in each box must work for a program to succeed. Because information is always needed, there will always be potential conflicts between the individual's interest and the interest of the industry. One argument is that protecting the individual's rights in terms of speech may prohibit everyone else from speaking. Allowing some individuals not to participate in the cost of checkoff-funded generic advertising to protect their individual rights to free speech, however, gives rise to free-riders. The free-rider problem always occurs as long as consumers cannot differentiate between the goods supplied by producers who pay the assessment and those supplied by producers who opt not to pay. In most cases, consumers probably cannot make the distinction when buying the commodity. At this point, the legal and legislative systems must intervene since relying on economic pressures to support a voluntary program have proven difficult, although possible. The current Flower Promotion Program is a notable case where the industry has moved from a mandatory to a voluntary program.

The Economics of Commodity Checkoff Programs

All generic advertising programs are intended to either enhance or lessen the erosion in the demand for a commodity. Demand is influenced by many factors, including checkoff program advertising and promotion activities. Most of the factors that affect demand, however, are completely outside the control of the industry. Consequently, declining demand does not mean a promotion program has failed because so many factors can work against the best efforts of the industry to promote its products. The evaluation task is to measure the effects of generic efforts in an environment where many demand drivers are changing demand all at the same time. Economists most often turn to statistical models to estimate and isolate the specific effects of different demand drivers and their impacts on the commodity market. Many of the major checkoff programs have developed statistical models that show the demand effects attributable to their generic advertising activities. In fact, checkoff programs established under federal authority are required to periodically measure the economic impact of their programs using appropriate statistical procedures.

While most models used to measure the effectiveness of commodity checkoff programs are tied to the uniqueness of the respective commodity analyzed, they all include some measure of demand, frequently at the retail level. Demand depends on prices, purchasing power, buyer characteristics, product attributes, market conditions, information, and many other factors. Generic advertising and promotion efforts, usually measured with checkoff expenditures, enter these models as a variable expected to enhance demand over some time period. If consumers respond to the message, some positive increase in demand attributed to the advertising should eventually occur. No consumer response would indicate that the messages have had little to no impact. Determining this advertising response is the single most important step in the evaluation process. Of course, getting to that response level requires an understanding of the checkoff programs, data collection, and careful analysis. With these things in place, individuals responsible for doing the evaluation can usually draw inferences about changes in demand attributable to the checkoff efforts and those attributable to other factors. Shifts in demand may lead to higher prices in the short run and, hence, greater revenues for the industry. Depending on the characteristics of production, storage, and trade flows, supplies may also change. Then any checkoff gains are expressed recognizing both shifts in demand and any changes in supply. The underlying analytics for measuring this process are not easy! As Wohlgenant demonstrates in another article in this issue of *Choices*, the problem is complicated further by determining where in the distribution system these shifts in demand and supply are measured.

By definition, generic advertising should be brand or market share neutral. In other words, generic advertising may increase total demand, but should not result in one firm or group of firms gaining market share over another. For example, generic promotions of flowers should not favor one type of retail sales outlet such as florists over another outlet like supermarkets. Major brands of commodities like Florida orange juice (Tropicana, Minute Maid, and Florida's Natural) would not be expected to lose or gain shares from the generic advertising of Florida oranges or orange juice. If a generic message enhances or reduces one brand share or outlet share relative to others, then a major equity problem occurs, as suggested in Figure 1 (left box). The program is no longer brand (or other segmentation) neutral and support for the program may well eventually decline because of the underlying inequity. Furthermore, if a firm is sufficiently large to effectively promote its own brand and capture the gains, that firm will argue that their contribution to generic promotions could more effectively be used to promote its own brand. In an industry driven by a few major brands, generic promotion programs usually play less prominent roles than brand advertising. In general, the level of concentration and the competitive structure within a commodity sector are major factors determining the usefulness of generic advertising. A few commodity checkoff programs, particularly almonds, provide advertising credits to major brand suppliers who can demonstrate that their own advertising programs enhance demand.

The Benefits of Commodity Checkoff Programs

The literature on economic benefits of commodity checkoff programs is growing and increasingly technical. Every commodity checkoff group struggles with the measurement of benefits and performance of their generic advertising programs and how to best communicate those benefits back to those who are "paying the bills." Economic modeling continues to be the instrument of choice for gaining insight into the economic impact from generic promotion programs. As a rule, benefit-to-cost ratios for generic advertising programs reported by researchers across a broad range of commodities are in the range of 4:1 to 6:1, indicating that for each dollar of promotions at least 4 to 6 times that amount is generated in new revenues, profit, or "economic surplus" to the industry, depending on how the "benefits" are defined in the associated study. This rule seems to be reasonably robust with a reported benefit-to-cost ratio for beef of 5.6:1; pork, 4.8:1; dairy, 4.6:1; flowers, 6.6:1; prunes, 2.7:1 ; eggs, 4.7:1; and processed oranges between 2:1 to 4:1, depending on the models and time period of analysis (AMS-USDA, 2005; Capps, Bessler, & Williams, 2003; Alston et al., 1998; FPO, 2005; Kaiser, 2005; Reberte, Schmit, & Kaiser, 1996; Ward, 2004).

In nearly every one of these studies, econometric models are used to predict demand with and without the generic advertising efforts, which yields the change in demand attributable to generic advertising. Once the generic-advertising-induced change in demand is estimated, the associated gains or losses in revenues, profit, or "economic surplus" (the "benefits") are expressed relative to the advertising effort (the "costs") and reported as benefit-cost ratios. The issue of measuring the benefits to checkoff programs is considered in more detail in the article by Williams and Capps in this issue of *Choices*.

Moving Forward

Checkoff programs have gone through a period of considerable uncertainty in recent years primarily because of conflicting legal rulings related to an increasing number of court challenges to the checkoff system. Now that a final legal ruling on the constitutionality of the beef checkoff has been handed down by the Supreme Court, many of the legal uncertainties may have been removed. New challenges will likely arise, however, and may well relate to the overall effectiveness and efficiency of the programs and the equity questions. Those types of challenges are more readily addressed with the types of economic models usually used for measuring advertising responses than has been the case for the legal challenges related to constitutionality.

Information is a key ingredient when making buying decisions. Commodity checkoff programs provide a marketing tool for producers to have a voice to inform potential buyers about the attributes and uses of their commodity. Most checkoff issues are not about the need for communicating, however, but about "what is said" and "who says it." Checkoff messages compete for the consumer's attention with the intent to influence buying behavior. Future challenges to checkoff programs most likely lie in the creativity of the message and the delivery process with more targeting to specific potential consumers. The promotion of fresh flowers is an excellent example of a change in strategy from a broad approach with "Mr. Buzz . . . the flower spokesperson or spokes-bee" to now focusing on selected demographics.

For More Information

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