Advertising commodities

"Got Milk?"

Though not very common, some advertising campaigns are directed at generic products or commodities. Why would anyone pay to advertise milk?

The demand effects of commodity advertising

A recent study shows that each dollar spent on advertising agricultural products like eggs, milk, beef, prunes or almonds yields \$3 to \$6 of additional revenue to producers. Not a bad return on investment. For example, the 1980s "California Raisins" campaign was credited with increasing sales by 10 percent. Before the ad campaign, raisins were "at best dull and boring," states the California Raisin Board. After the campaign, people were no longer "ashamed to eat raisins."

Incentives

Profitable as they are, Commodity Promotion Programs — as these campaigns are called — are difficult to implement. Given that some producers are paying for such a campaign, other producers may have a strong incentive not to pay for it: there is nothing better than reaping the benefits without paying the costs.

In order to solve this problem, some of the programs are mandatory, that is, growers vote whether to start a marketing program; and if the vote succeeds, all growers are required to participate.

The jury is still out

But mandatory programs create their own problems. Since the early 1990s, a series of U.S. producers have sued their respective boards claiming they cannot be forced to participate in such deals. Initially, the Courts ruled largely in the plaintiffs' favor. But in 2005 the US Supreme Court ruled 6-to-3 that beef marketing programs did not violate the First Amendment (rights of free speech and association). There are still dozens of cases under litigation.

Written by Luís Cabral for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The case is partly based on the article by Hal Varian, "Advertising Commodities Can Be Tricky, but It Does Pay Off," *The New York Times,* June 1, 2006. That article, in turn, makes extensive reference to the book, *The Economics of Commodity Promotion Programs,* by Harry M. Kaiser, Julian M. Alston, John M. Crespi and Richard J. Sexton (Peter Lang Publishing, 2005).

Questions for discussion

(a) How would you structure a campaign to provide producers with the appropriate incentives?

(b) What should the Courts decide on the challenges by individual producers?

(c) Are commodity marketing programs socially beneficial?

(d) Can you think of similar problems with similar conflicts of interests? Do the solutions there apply in the present context?