Generic Advertising: Does it Work?

Harry Kaiser - Cornell University

Generic Advertising: Does it Work?

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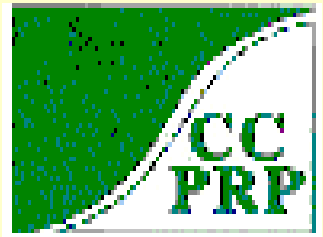


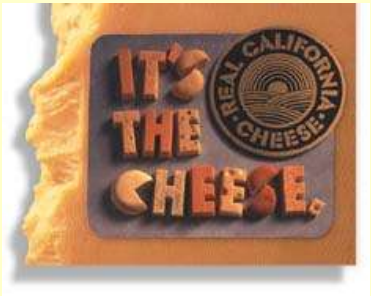
Presentation at Southern Milk Conference
February 8, 1999
Atlanta, Georgia

Purposes

Discuss economic approach to advertising evaluation

Examine recent findings on impacts and effectiveness

- Price and quantity impacts
- Rate of return to generic dairy advertising



Econometric evaluation

Commodity demand depends upon such factors as:

Retail own price (-)
Price of substitutes (+)
Price of compliments (-)
Consumer income (+)
Population (+)
Population demographics (+ or -)
Consumer tastes and preferences (+ or -)
Consumer health concerns (+ or -)
Season of year (+ or -)
Current and lagged generic (and brand) advertising (+ or zero)
Current and lagged competing product advertising (- or zero)

Econometric approach

Uses statistical technique with time series and/or cross sectional data

Estimates shift in demand due to advertising (“advertising elasticity”)

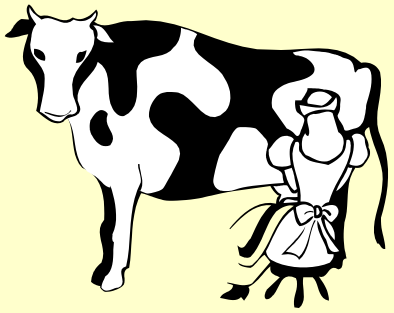
Estimates net impact of all demand factors

Accounts for supply response to higher price

Cornell dairy industry model

Econometric model with national quarterly data, 1975-97

Retail, wholesale, and farm sectors included



Fluid milk and cheese disaggregated

DPSP modeled by following restriction: WCP $\geq$ GCP

Assumes one national FMMO with average class prices

All products measured on milk-fat equivalent basis

Generic advertising expenditures included in retail demand

Per capita milk and cheese demand depends on:

Retail own price

Retail price of substitutes

Per capita disposable income

Current and past generic (and brand) advertising expenditures

Seasonality variables

Indicator variable for bovine somatotropin

Trend variable for consumer change in tastes

Econometric results (selected elasticities, 1975-97)

Variable	Fluid milk	Cheese
Own price	-0.175*	-0.571*
Income	0.163*	0.318*
Branded advertising	NA	0.036*
Generic advertising	0.029*	0.011**

* Statistically significantly different from zero.

** Marginally statistically significant from zero.

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R^2	0.89	0.98

* Statistically significant from zero.

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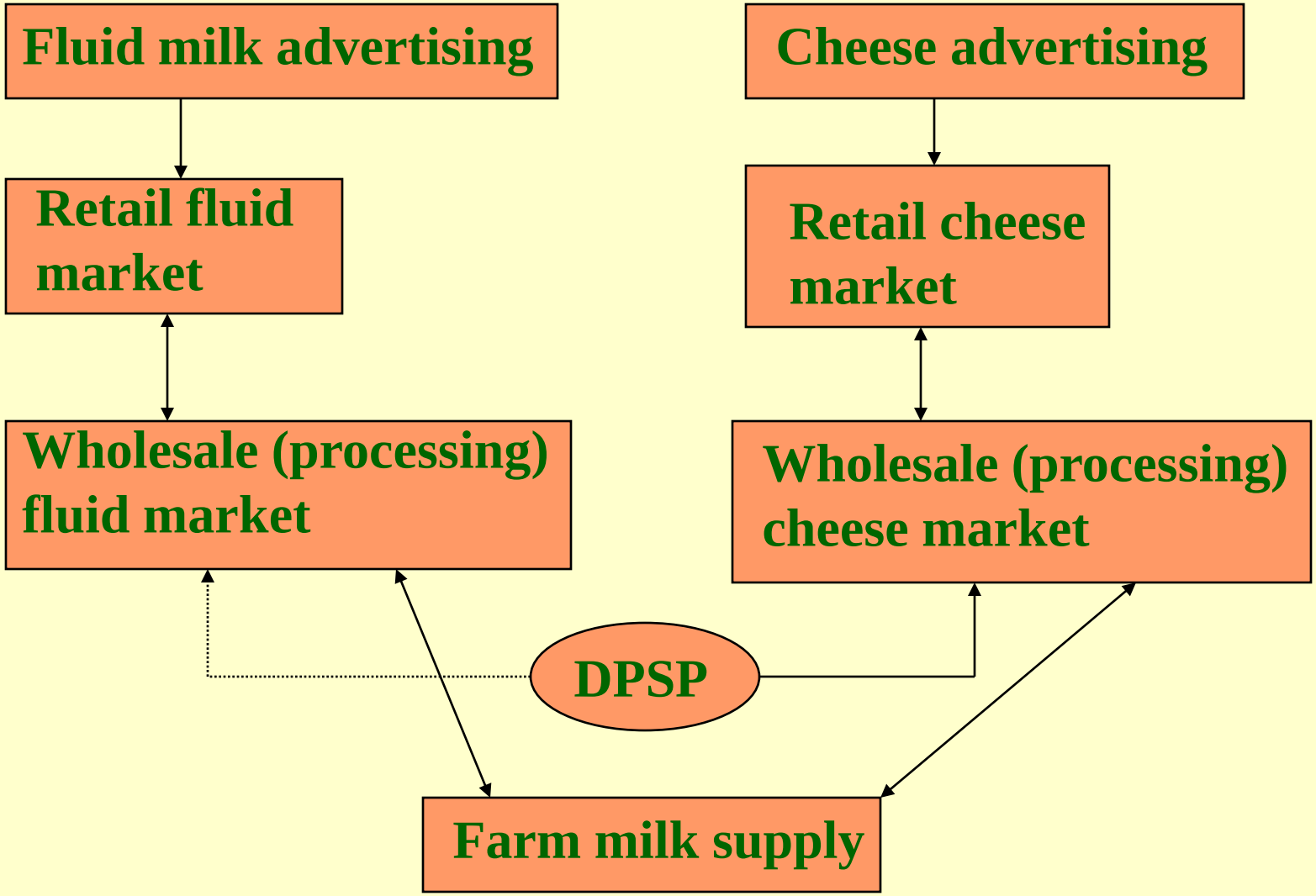
Overview of conceptual dairy industry model



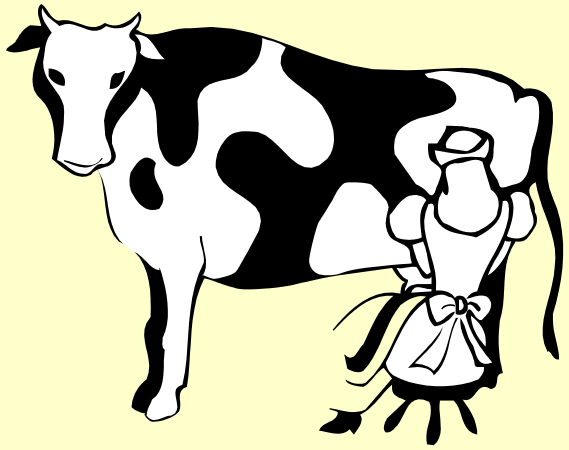
Model simulations

Model simulated under two scenarios:

1. Checkoff scenario - reflects 15 cent/cwt. assessment

2. No-checkoff scenario - reflects 6.3 cents/cwt. assessment

Difference between scenarios gives impact of mandatory program



Average quarterly values, 1984.3-97.4

Variable	Unit	with checkoff	without checkoff	Percent change
Fluid demand/supply	bil lbs me	13.55	13.42	1.0
Cheese demand	bil lbs me	12.80	12.76	0.3
Cheese supply	bil lbs me	13.06	13.05	0.1
Total demand	bil lbs me	34.94	34.77	0.5
Retail fluid price	1982-84=100	123.35	113.02	8.4
Retail cheese price	1982-84=100	127.08	125.69	1.1
Wholesale fluid price	1982=100	115.66	107.24	7.3
Wholesale cheese price	$/lb	1.46	1.44	1.6
Class III price	$/cwt	12.18	11.87	2.6
All milk price	$/cwt	13.11	12.79	2.5
CCC cheese purchases	bil lbs me	0.25	0.28	-11.5
CCC purchases	bil lbs me	1.63	1.66	-1.8
Milk supply	bil lbs	37.32	37.18	0.4
Producer net revenue	bil $	4.55	4.42	2.9
Benefit-cost ratio	$	4.00		

Conclusions

Advertising under mandatory checkoff has been profitable for farmers

Results indicate higher price and market quantity due to advertising

Benefits greater than costs