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Impact of Generic Milk Advertising on New York State Markets

by

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In New York State, farmers contribute \$17 million annually to federally-authorized dairy promotion and advertising programs. Given the amount of this investment, it is fair to ask: are farmers getting their monies worth? This article summarizes the results of recent research that investigated this question.

The \$17 million spent each year on dairy promotion and advertising is allocated to national, as well as authorized regional, state, and local promotion programs. The largest regional program operating in New York State is the American Dairy Association and Dairy Council (ADADC). Other programs receiving financial support from New York dairy farmers include Milk for Health on the Niagara Frontier, which is located in the Buffalo area, and the Rochester Health Foundation. New York dairy farmers choose to devote all of the state promotion dollars on fluid milk advertising and promotion since increasing Class I sales benefit farmers more than increasing manufactured dairy product sales given the Class I premium.

The NYMPAB have sponsored research with agricultural economists at Cornell University to develop a model of fluid milk demand for New York City, Albany, Syracuse, Rochester, and Buffalo media markets. These economists use the model to examine whether advertising significantly increases fluid milk demand in each of these five markets. The model is representative of real life conditions in that it incorporates farmer- and processor-funded

advertising expenditures for fluid milk into the demand models for each of the five markets. If advertising is indeed effective, then the commercial demand for fluid milk should increase. This, in turn, should cause the demand for farm milk and thus farm prices to rise beyond what they would have been without such a program. By accounting for milk and dairy product prices, prices of substitutes (e.g., other beverages), consumer income, population, season of the year, and various demographic factors, the model can measure the net effect of advertising on demand and price over time.

Recent results indicate that generic milk advertising has had a positive impact on milk demand in all markets. Advertising had the largest impact on per capita demand in Buffalo, which was followed closely by New York City. These results are consistent with earlier findings by Cornell. While increasing demand is important, the true indicator of effectiveness is whether advertising raises farm prices and incomes by more than the cost of the program.

To look at this issue, the Cornell milk demand model was simulated to determine the impact of the New York State portion of advertising expenditures on producer milk prices and returns. The model was simulated with and without the New York portion of advertising to determine the impact of advertising on blend prices. From 1986-97, the average cost of the New York State portion of the advertising program was 5.5 cents per cwt. The results indicate that New York State blend prices averaged 8.8 cents per cwt higher due to state sponsored fluid milk advertising. Put differently, had there been no New York State program over this period, the blend price would have been almost 9 cents lower than it actually was.

Benefit-cost ratios (BCR) were also estimated for each of the five markets. The weighted average BCR for the five markets was 2.82, i.e., an additional dollar spent on state generic milk advertising resulted in an average increase of \$2.82 in Class I revenue. Since the BCR for New York State is well above 1.00, this indicates that New York State's contribution to the overall advertising program had benefits that exceeded costs, on average, over this period of time. In terms of individual New York State markets, New York City had the highest BCR, which was followed closely by Buffalo.

These results show that dairy farmers, as a group, are benefiting from New York State milk advertising. Without milk promotion, consumer demand for dairy products would be less; this would negatively affect all dairy farmers.