

# Advertising and Promotions in the US Green Industry<sup>1</sup>

Hayk Khachatryan, Alicia Rihn, Marco A. Palma, and Charles R. Hall<sup>2</sup>

## Introduction

In the US green industry (firms that sell nursery and garden products), advertising and promotions are an important means of communicating product and service benefits and differences to consumers to favorably influence their preferences and willingness to pay (Campbell and Hall 2010). Budget-minded consumers, intense competition, decreased spending on household improvements, and decreased leisure time have all contributed to constricting demand for green industry products (Lerman 2013). Consequently, green industry stakeholders have become more interested in effective advertising and promotion strategies. A major question for green industry firms is how to stimulate additional sales. Industry stakeholders often choose advertising and promotions as the most effective strategies to help the green industry reach consumers.



## Advertising and Promotions Categories of Advertising and Promotions

Two broad categories of advertising promotions are (1) generic, or commodity-specific, advertising and (2) brand-specific advertising. Generic advertising is often supported by industry-funded promotions (e.g., check-off programs), and disseminates information to supply-chain members (Ward 2009). Generic advertising provides consumers with information about attributes of the product rather than the brand (Carey and Bolton 1996). Because it is not

outlet-specific, generic advertising benefits all industry members through increased consumer demand and market share (Rimal and Ward 1998). Brand-specific advertising, on the other hand, focuses on building loyalty for a specific brand among consumers. Brand advertising is typically at the firm level and highlights the brand with the expectation of creating a connection with consumers.

### GENERIC PROGRAMS

Generic programs have two potential effects on consumer demand. First, these advertising programs can cause consumers to become more loyal to the product (or the

1. This is EDIS document FE948, a publication of the Food and Resource Economics Department, UF/IFAS Extension. Published August 2014. Please visit the EDIS website at <http://edis.ifas.ufl.edu>.
2. Hayk Khachatryan, assistant professor, and Alicia Rihn, postdoctoral research assistant, Food and Resource Economics Department, Mid-Florida Research and Education Center, UF/IFAS Extension, Apopka, FL. Marco A. Palma, associate professor, Department of Agricultural Economics, Texas A&M University, College Station, TX. Charles R. Hall, professor and Ellison chair, Department of Horticultural Sciences, Texas A&M University, College Station, TX.

The Institute of Food and Agricultural Sciences (IFAS) is an Equal Opportunity Institution authorized to provide research, educational information and other services only to individuals and institutions that function with non-discrimination with respect to race, creed, color, religion, age, disability, sex, sexual orientation, marital status, national origin, political opinions or affiliations. For more information on obtaining other UF/IFAS Extension publications, contact your county's UF/IFAS Extension office. U.S. Department of Agriculture, UF/IFAS Extension Service, University of Florida, IFAS, Florida A & M University Cooperative Extension Program, and Boards of County Commissioners Cooperating. Nick T. Place, dean for UF/IFAS Extension.

product category), and as a result the consumer becomes less sensitive to price changes. Loyalty is associated with reductions in own-price elasticity of demand (that is to say, when the price of a product or service goes up, consumer demand for the product or service normally declines, but with greater consumer loyalty, this reduction in quantity demanded can be lessened—and commodity-specific advertising can increase that loyalty). Another effect of generic advertising programs is increased general awareness and product usage, both of which result in increased demand at all price points. This effect is associated with an overall upward shift in demand.

## BRANDED PROGRAMS

Unlike generic advertising, brand advertising targets those consumers who have not yet established a preference. Along with promoting the brand, brand advertising also increases market share, creates brand loyalty and equity, and reduces demand elasticity. For example, in the cut-flower industry, brand promotional strategies are retail-outlet-specific to influence consumers' choice of cut-flower retail outlets (Rimal and Ward 1998). A major difference between generic and brand advertising is that brand advertising prevents free riding, which is when a firm benefits from resources spent on advertising by a different firm (Kinnucan and Myrland 2008).

## Economic Benefits of Advertising and Promotions

Research in other industries has shown that there is a positive relationship between generic advertising expenditures and sales. For example, in the dairy industry, the increased expenditures on generic advertising increased consumption, demand, and consumer preferences (Ward and Dixon 1989). Similarly, generic advertisements for the Florida orange juice industry increased consumption by 3.31 to 7.67 percent, while brand advertising had no effect (Capps et al. 2004). Overall, these studies indicate that generic promotional programs have more of an impact on consumer demand than more localized branded regional promotions for these products.

Regarding returns on advertising expenditures in the green industry, another study investigated the impact of advertising on nursery sales (Palma et al. 2012). Specifically, the researchers estimated benefit-cost ratios (BCR), which reveal the returns from additional sales for every \$1 spent on advertising in Internet media; print media (yellow pages, catalogs, journals, newsletters, and other publications); and mass media (television, radio, billboards, and trade shows). The study examined different-sized firms in the

United States (Figure 1). For small firms, money spent on Internet advertising and promotions resulted in the greatest increase in sales (with a \$5.90 return for each dollar spent), followed by print media (a \$4.50 return) and mass media (a \$4.20 return), respectively. For medium-sized firms, Internet advertising and promotions had the highest return at \$7.50 for each additional advertising dollar spent, followed by mass media (a \$1.70 return) and print media (a \$1.50 return), respectively. For large firms, mass media advertising and promotions had the highest return (\$4.40 per ad dollar), followed by print media advertising (a \$2.40 return). Similarly, mass media advertising and promotions had the greatest return for very large firms (\$5.80).

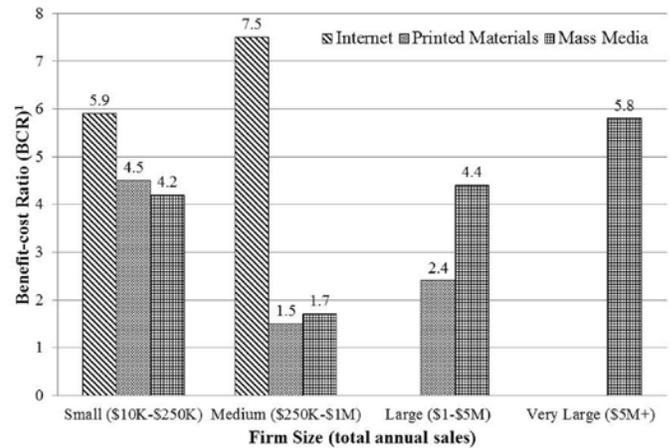


Figure 1. Benefit-cost-ratio of different types of promotions by firm size [Note: The BCR estimates reflect additional sales generated for each \$1 increase in expenditures on promotions/advertising. Printed materials and Internet categories were not statistically significant for the very large firms category. The Internet category was not statistically significant for the large firms category.]

## Advertising and Promotional Marketing Recommendations by Firm Size

Research indicates that Internet marketing is the most cost effective for small firms, followed by print media and mass media, respectively (Palma et al. 2012). The advantage of Internet marketing is that it is relatively inexpensive compared to print and mass media marketing. In addition, a firm can develop animated or interactive advertisements and promotions linked to the company website. At a relatively lower cost, it allows the firm to reach broader consumer segments with advertising and promotional information that is relevant to those particular segments. The disadvantage of using Internet marketing is the high degree of visual clutter that may occur on websites hosting the advertisements. Print media marketing has unique advantages, including providing complex information,

creating personalized messages, and reaching selective audiences. Both Internet and print media marketing allow small firms to target an assortment of customers and form relationships with those customer groups. As a result, small firms are able to more efficiently compete against larger firms through these two methods of marketing.

Mass media marketing becomes more important as firm size increases (Palma et al. 2012). Because large firms are producing greater product quantities, they are more likely focusing on customer volume versus building relationships. Mass media marketing serves as a way for larger firms to reach a larger audience. Different forms of mass media can be used to reach the target audience. A key disadvantage of using mass media marketing is the higher cost, but this is not a major problem with very large firms that have more resources.

## Summary

Advertising and promotional marketing increase consumer awareness and spur purchases. Marketing may also stimulate additional demand for green industry products and services. The effectiveness of different marketing strategies varies by firm size. Smaller firms benefit from using relationship-building mediums (e.g., Internet and print media), and larger firms use mass media more effectively. However, firms should not necessarily rely solely on the most efficient promotional medium. Rather, they should evaluate their media options based on their target audiences and choose promotional strategies that will reach those audiences most effectively. Firms can then integrate those media options into their advertising and promotional marketing strategies.

## References

- Campbell, B., and C.R. Hall. 2010. Effects of pricing influences and selling characteristics on plant sales in the green industry. *HortScience* 45:575-582.
- Capps, O.J., D. Bessler, and G. Williams. 2004. Advertising and the retail demand for orange juice. TAMRC Consumer and Product Research. Texas Agribusiness Market Research Center, Texas A&M University, College Station, TX.
- Carey, C., and D.L. Bolton. 1996. Brand versus generic advertising and the decision to advertise collectively. *Review of Industrial Organization* 11:93-110.
- Kinnucan, H.W., and Ø. Myrland. 2008. On generic versus brand promotion of farm products in foreign markets. *Applied Economics* 40:673-684.
- Lerman, S. 2013. *Drying up: Consumers will seek out bargains from mass retailers, hurting nurseries*. IBISWorld Industry Report 4442. Nursery and Garden Stores in the United States. <http://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=1037>.
- Palma, M.A., C.R. Hall, B. Campbell, H. Khachatryan, B.K. Behe, and S. Barton. 2012. Measuring the effects of firm promotion expenditures on green industry sales. *Journal of Environmental Horticulture* 30:83-88.
- Rimal, A. and R.W. Ward. 1998. Effect of generic promotion of flowers on the use of retail flower outlets. *American Agricultural and Economics Association (AAEA) Conference*, Salt Lake City, UT.
- Ward, R. 2009. Understanding the U.S. generic advertising system and its role in information management among commodities and food systems. *International Journal of Food System Dynamics* 3:204-211.
- Ward, R., and B. Dixon. 1989. Effectiveness of fluid milk advertising since the Dairy and Tobacco Adjustment Act of 1983. *American Journal of Agricultural Economics* 71:730-740.