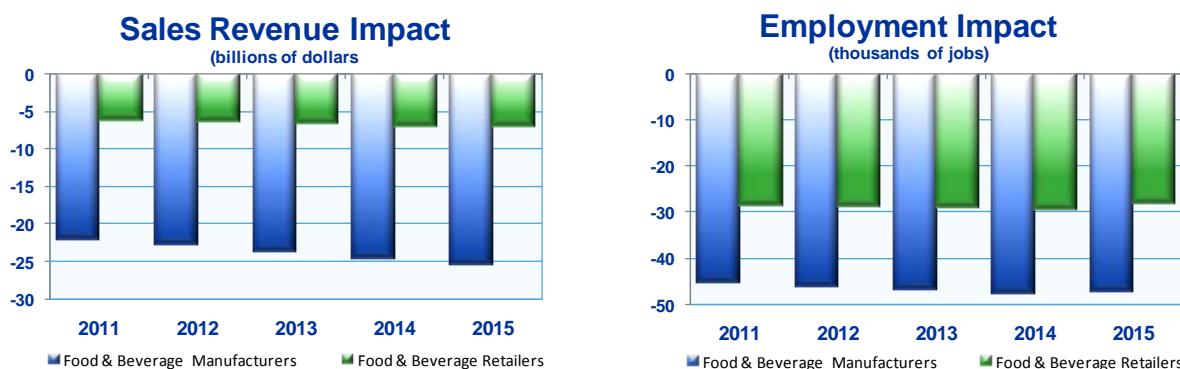




Assessing the Economic Impact of Restricting Advertising for Products That Target Young Americans

A potential 20% reduction in food and beverage advertising expenditures due to proposed voluntary restrictions could affect over 74,000 jobs

The Federal Trade Commission (FTC), Food and Drug Administration (FDA), Agriculture Department and Centers for Disease Control (CDC), banded together as the Interagency Working Group, are proposing guidelines for eliminating advertising of certain foods and beverages that targets young people under age 18. Though the guidelines are voluntary, the food and beverage industry is bracing for the possibility of the guidelines being treated as regulatory policies. IHS Consulting assessed the ramifications of a scenario in which food and beverage advertising expenditures were decreased by 20% as a result of the guidelines.



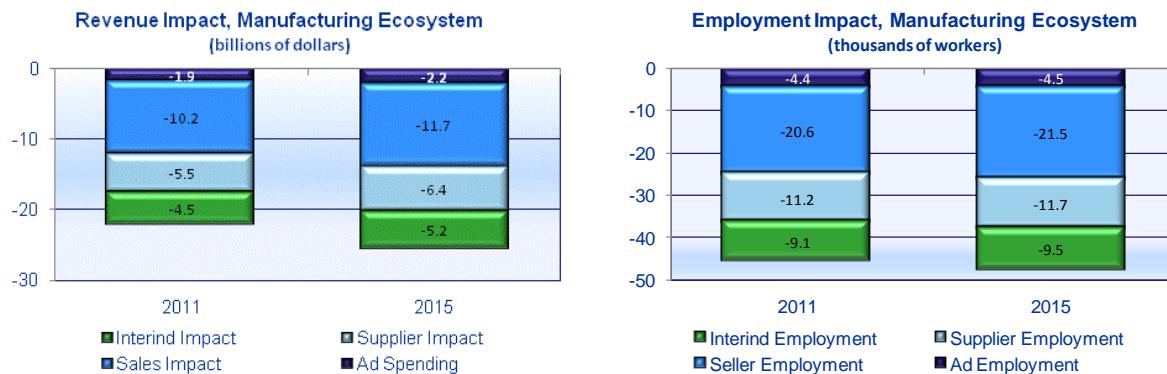
The ultimate goal of the guidelines is to reduce the consumption of unhealthy foods by young Americans. Most consumer purchases are based on personal needs, wants, and preferences, but a small percentage of food and beverage sales are driven by advertising. Less advertising translates into reduced sales and production of the restricted products. Less food and beverage production would radiate through the food and beverage manufacturers' supply chains. Lower consumption would also result in lower retail sales of the restricted products. With this in mind, IHS Consulting assessed the comprehensive impact that ripples through the manufacturing, retail and media sectors.

The analysis assumes that the proposed guidelines would reduce current food and beverage advertising expenditures by 20%¹. This would result in a decrease in total annual sales of \$28.3 Billion and eliminate 74,000 jobs in 2011. From 2011 through 2015, the cumulative lost sales would be \$152 Billion, and the cumulative lost person years of work would be 378,000.

¹ Due to the extent of the voluntary restrictions, the decrease in advertising and other promotional expenditures could exceed 20%, resulting in larger decreases in sales and employment. While a portion of the affected advertising expenditures could be redirected to other product classes, it is not a foregone conclusion. Thus, this analysis focuses on the potential disruption to the current operations of the food and beverage sector.

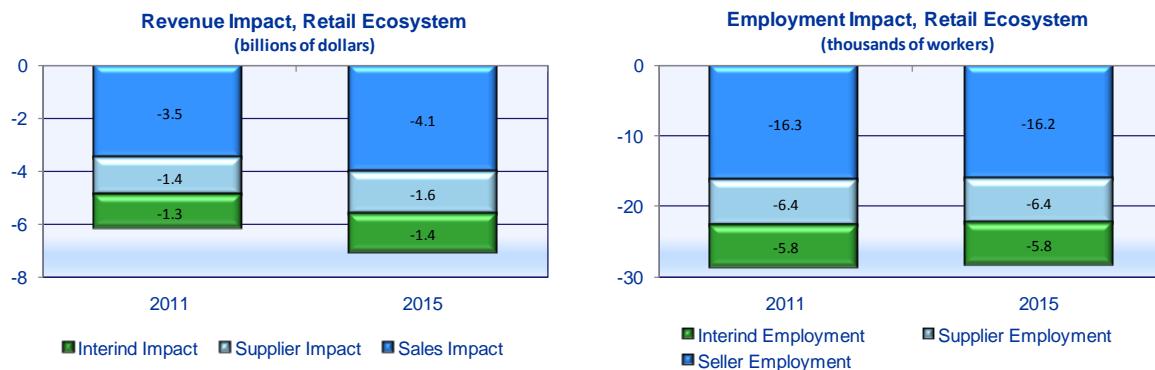


Potential Impact on the Food and Beverage Manufacturing Ecosystem



Like their counterparts in other sectors, food and beverage companies leverage advertising to stimulate additional sales. Most of the advertising simply transfers market share from one company to another, causing no change in total industry sales. But some of the advertising boosts sales for the industry. For this industry, every advertising dollar stimulates over \$5 in additional industry sales. In this analysis, advertising drops by \$1.9B in 2011, leading to a decline of \$10.2B in sales and a loss of 21,000 jobs. Cumulatively through 2015, the industry loses \$54.6B in sales and 106,000 person years of work. But the economic impact does not stop there. Food and beverage manufacturers buy inputs and services from many suppliers (yielding the supplier impact) who, in turn, make purchases that ripple through many levels of business activity (yielding the inter-industry impact). Thus, the entire food and beverage manufacturing ecosystem experiences a \$22.1B sales decline in 2011 and cumulatively through 2015 loses \$188.8B in sales. Lower sales volume yields lower employment levels across all tiers of the manufacturing ecosystem. In 2011, more than 45,000 jobs disappear, and cumulatively through 2015 more than 233,000 person years of work are lost.

Potential Impact on the Food and Beverage Retail Ecosystem



A large portion of retail product advertising actually is paid for by food and beverage manufacturers. This already has been accounted for in the analysis of the manufacturing ecosystem. As manufacturers reduce advertising expenditures, sales through the retail channels also fall. In 2011, the impact would amount to \$6.2B in lost sales and over 28,000 fewer workers in the retail ecosystem. Cumulatively through 2015, retailers would lose \$33.5B in sales and shed 144,000 person years of work.

Economic Impact	Food and Beverage Manufacturing Ecosystem						Food and Beverage Retail Ecosystem					
	2011	2012	2013	2014	2015	2011-15	2011	2012	2013	2014	2015	2011-15
Revenue (billions of dollars)												
Ad Spending	-1.9	-2.0	-2.0	-2.1	-2.2	-10.2						
Sales Impact	-10.2	-10.5	-10.9	-11.4	-11.7	-54.6						
Supplier Impact	-5.5	-5.7	-5.9	-6.2	-6.4	-29.7						
Inter-industry Impact	-4.5	-4.6	-4.8	-5.1	-5.2	-24.2						
Total Revenue Impact	-22.1	-22.8	-23.7	-24.8	-25.4	-118.8						
Employment (person-years)												
Ad Employment	-4.4	-4.4	-4.4	-4.4	-4.5	-22.2						
Sales Impact	-20.6	-21.0	-21.4	-21.7	-21.5	-106.3						
Supplier Impact	-11.2	-11.4	-11.6	-11.8	-11.7	-57.8						
Inter-industry Impact	-9.1	-9.3	-9.5	-9.6	-9.5	-47.1						
Total Impact (person-years)	-45.4	-46.2	-46.9	-47.6	-47.3	-233.4						

