

# Organic food prices and the consumer – a review of the evidence

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## **Implications**

There is a lack of research on actual organic price knowledge and on how consumers deal with prices during information search and purchase decision at the point of sale. Further research into this can help market actors to strike the balance between price as a barrier and as a cue to quality perception. Research on consumers and organic food prices should increasingly differentiate between organic consumer segments, product categories, distribution channel and brands. Such research will guide market actors towards more targeted pricing strategies that can support further market growth.

## **Background and objectives**

Many European governments have set themselves ambitious aims of increasing the share of organic farming. A number of barriers are potentially hampering the further development of the sector. For the consumption side, high prices are handled as a major barrier to an increase in demand. In order to shed light on the state of the research with regard to consumer behaviour and organic food prices, we review the literature since the turn of the millennium. The research questions employed regarding organic food are: 1. How important is price as a barrier to choice? 2. What is consumer's state of knowledge and perception of prices and the price premium? 3. How large is consumers' willingness-to-pay? 4. What is known about consumers react to pricing measures?

## **Key results and discussion**

There is a large amount of literature potentially relevant for the topic. However, few address prices and consumer price behaviour as the main subject of research. Several research streams can be identified: First, qualitative and quantitative surveys analysing self-reported motives, barriers, attitudes and behaviour. Second, there is research using e.g. auctions, choice tests or experiments in order to explore willingness-to-pay (WTP) and preferences, often comparing organic to conventional or comparing the relevance of different food attributes such as fair trade or local origin. Third, there are studies using revealed preference data from panel or scanner data sets, exploring e.g. the influence of purchase environments, purchase patterns and category differences.

The literature underlines clearly that consumer report price to be the major barrier to purchase or the greatest barrier alongside with availability. This is shown in quantitative surveys (e.g. Krystallis & Chryssohoidis, 2005) as well as qualitative research (e.g. Padel and Foster 2005). It appears that organic consumers tend to be characterised by higher income (e.g. Ngobo, 2011; Wier et al. 2008). However, findings are partly mixed, and some studies see education as the greater explanatory factor (Dettmann & Dimitri, 2009) or regard both as a combined factor in terms of 'social class'. Income can be regarded as an indirect sign that prices are a factor of influence. Hughner et al. (2007) are interpreting the contradiction that young consumers hold more positive attitudes while relatively older consumers purchase organic food as a result of the higher disposable income. Yridoe et al. (2005) note that the effect of income on organic purchase might weaken with increasing income levels, a relationship yet to explored further.

Given price is clearly named as a major barrier, it follows that consumers are highly aware of the price premium. Few sources, however, actually further explore or quantify price knowledge. In a study in Germany, Spiller (2001) found an expected premium of 20%, while another German study with 642 respondents surveyed in-store showed that price knowledge of products is rather low, and that consumers purchased organic even

when the actual price premium was higher than their willingness-to-pay (WTP) expressed beforehand (Plassmann & Hamm, 2009).

Considerably more work has been carried out about WTP for organic food price premiums (Hamm et al., 2012). WTP varies greatly depending on the category, product, methodologies and country, and can only be interpreted on this background. It appears as if most consumers express a certain WTP for organic (e.g. Bauer et al. 2012), which is consistent with the favourable attitudes generally expressed (Aertsens et al. 2009).

Recently, research has turned to revealed preference data and analysing consumer reactions to pricing measures. Ngobo (2011) suggests organic consumers hardly react to price promotions and that there might even be a negative relation following an inverted U-shaped function. Bezawada and Pauwels (2012), however, conclude it is mainly the 'core' or 'frequent' organic consumers that are less price-sensitive.

Two emerging issues appeared of future relevance on the background of the so-called 'conventionalisation' of the sector: First, which price premium strikes the balance between not being a barrier while preserving its function as a quality signal? Second, which segmentation strategy can allow availability to a mainstream market but still serve credibility and exclusiveness?

### **How was the work carried out?**

The following databases were searched: organic e prints, Science Direct, Business Source Complete and Web of Science (search terms: organic, price, consumer; in both title and abstract, from 2000 onwards). The references cited are only a fraction of the literature.

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