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The determinants of green packaging that influence buyers' willingness to pay a price premium

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ABSTRACT

The study examined the impact of green packaging on consumer behaviour. It was measured through willingness to pay since it acts as a proxy for actual behaviour. Using a sample of 343 respondents, the study empirically confirmed the effect of six factors grounded from “theory of consumption values” and “customer value creation framework” that offered uniqueness to green packaging and influenced buyers' willingness to pay a price premium.

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1. Introduction

This paper presents research into pre- and post-consumption of packaging through the lens of buyers' willingness to pay a price premium for green packaging. Packaging is described as the fifth ‘P’ of the marketing mix (Nickels and Jolson, 1976). It protects, preserves and stores a product until it is consumed. It also satisfies the legal obligations of the manufacturer and conveys important brand messages to consumers. Packaging is classified in numerous categories, such as passive and active (Southgate, 1994), primary, secondary and tertiary (Vidales Giovannettri, 1995) and pre- and post-consumption (Prendergast and Pitt, 1996). The pre-consumption characteristics of packaging involve branding and graphics (Deng and Kahn, 2009; Orth and Malkewitz, 2008; Underwood and Klien, 2002). Post-consumption, however, packaging somewhat loses its functional importance and the improper disposal of used packaging causes significant environmental pollution. Companies are therefore exploring new designs to increase the post-consumption usage of those packaging materials.

Packaging negatively affects the environment in three ways: by consuming resources, by generating solid, liquid, and gaseous waste and pollution and by spreading bacteria and pests (Zhang and Zhao, 2012). In 2016, Australians produced 50 million tonnes of waste, only 58% of which was recycled (MRA Consulting, 2016). As far back as 1992, Kassaye and Verma extended the literature by considering the issue of landfill sites becoming increasingly ex-

hausted. Given the contribution that packaging makes to solid and liquid waste, consumers now desire packaging to be environmentally friendly or green. Increased consumer awareness has been demonstrated by the growing recognition of events such as EARTH DAY, support for activist organisations such as Greenpeace and the recognition of environmental safety programs. Various national and international bodies have passed environmental legislation to restrict the use of packaging. The European Union, for instance, has issued a series of directives detailing the need to reduce packaging waste and promote recycling. In another example, in September 2014, India banned the use of polyethylene terephthalate and plastic containers for the primary packaging of drugs.¹ As consumers and legislative bodies across the globe, which constitute the major groups of stakeholders, have become more aware and more concerned about the negative environmental impact of packaging, scholars have been encouraged to investigate the trade-off between the marketing functions of packaging and the environment (e.g., Livingstone and Sparks, 1994; Prendergast and Pitt, 1996; Kassaye and Verma, 1992). Other research (Rokka and Uusitalo, 2008) found that green packaging was a vital criterion for consumer choice, thereby highlighting the increased importance consumers give to protecting the environment.

The purpose of this paper is to understand buyers' purchasing behaviour in relation to green packaging. While buyers' purchasing behaviour is a complex construct that involves multiple stages (Darley et al., 2010; Hawkins et al., 2003; Engel et al., 1986), the

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¹ The Gazette of India, September 29, 2014, accessed on May 01, 2017, [http://www.cdso.nic.in/writereaddata/GSR%20701%20\(E\)%20dated%2029_09_2014.pdf](http://www.cdso.nic.in/writereaddata/GSR%20701%20(E)%20dated%2029_09_2014.pdf).

scope of this study was limited specifically to the actual purchase stage. Willingness to pay was used as a measurement of purchase behaviour as it was the closest approximation of actual behaviour (De Pelsmacker et al., 2005). Green packaging offers potential ‘uniqueness’ to any product (Agarwal and Rao 1996; Netemeyer et al., 2004; Wiedmann, et al., 2007) and its inclusion in any form influences buyers to pay a price premium (Kalra and Goodstein 1998; Netemeyer et al., 2004). Hence, the research objective was to find the conclusive factors that influenced buyers’ willingness to pay a price premium for green packaging.

This paper is structured as follows. Section 2 covers the relevant literature review. It includes a brief about concepts investigated in this study. The variables capable of influencing buyer’s willingness to pay a price premium for green packaging are also tabulated. Section 3 covers research methodology explicating the design of questionnaire used in this study for data collection. The details about sampling, including sample size, sampling technique are also explained in this section. Section 4 details data analysis, highlighting the results extracted from the collected data. Section 7 details testing of hypothesis followed by discussion and contribution this paper makes to the literature in Section 8 and 9. The paper concludes by showcasing limitations and implications drawn from the paper in Sections 10 and 11 respectively. The future outlook is detailed in Section 12.

2. Literature review

In line with the research objective, the literature review was undertaken in two parts. The intention of the first part was to gain an understanding of the theoretical foundation of the three concepts used in this study, namely, willingness to pay, price premium and green packaging. These are covered briefly immediately below. The second part of the literature review was devoted to exploring aspects (variables) relevant specifically to green packaging that could influence buyers’ willingness to pay a price premium.

2.1. Part 1

2.1.1. Willingness to pay

The willingness to pay concept originated in the pricing and consumer behaviour domain of marketing (Breidert et al., 2006). It accurately predicts buyers’ purchasing behaviour and ultimately assists organisations to develop their pricing strategies (De Pelsmacker et al., 2005). Breidert et al. (2006) revealed techniques that could be used to determine buyers’ willingness to pay. Their recommendations from a comparative analysis of willingness to pay techniques were considered when selecting the research methodology for this study.

2.1.2. Price premium

A price premium is defined as the additional amount that (a) is paid over the average price and (b) represents improvements in the quality of a product or service (Rao and Bergen, 1992). In the economics literature, it was Klein and Leffler (1981) who formally started the discussion on price premium. Determining a willingness to pay a price premium can have significant impact on revenues and profits (Pandey et al., 2016, Marn et al., 2004). The literature review on price premium that Singh and Pandey undertook in 2015 led to their defining the numerous factors that may influence buyers’ willingness to pay a price premium (Singh and Pandey, 2015).

2.1.3. Green packaging

“Green packaging or ecological packaging or environmentally friendly packaging is packaging that is completely made by natural plants, can be recycled or second used, prone to degradation and promotes sustainable development, even during its whole lifecycle, it is harmless to the environment as well as to the human body and livestock’s health” (Zhang and Zhao, 2012). Green packaging is associated with the “4R1D” principle, i.e., Reduce, Reuse, Reclaim, Recycle and Degradable. It is also described as “packaging made from eco-friendly/biodegradable/composite materials that can be broken down and assimilated by natural means back into common earth elements like carbon, oxygen and hydrogen” (Dharmadhikari, 2012). The existing literature extensively reviews buyers’ willingness to pay a price premium for green products. However, this study specifically considers green packaging.

While all three of the concepts that are the focus of this study, i.e., willingness to pay, price premium and green packaging, have been widely researched in isolation, there is limited available literature on research into the three factors together. Among these few studies are those of Van Birgelen et al. (2009), who developed several hypotheses using the fundamental theories of consumer behaviour, including the work of Maslow (1967) on meta-needs, of Bem (1967) on self-perception, of Fishbein (1979) on reasoned action and of Ajzen (1991) on planned behaviour. The Van Birgelen et al study concluded that eco-friendly purchase and disposal decisions were related to environmental awareness and the eco-friendly attitude of the consumers. It implied that during the purchase process, buyers consider green packaging a vital attribute. This is largely due to the additional values that are offered by the characteristics of green packaging. According to the theory of value-based pricing, the increased perceived value encourages buyers to pay a price premium (Nagle et al., 2006).

2.2. Part 2

The second part of the literature review focused on determining holistically the relevant variables that influence willingness to pay a price premium for green packaging. A wide range of contexts that directly or indirectly affect a buyer’s behaviour were considered. The potential variables from the literature were also viewed through the lens of tangible and intangible values offered to buyers.

Quality is one of the most widely researched characteristics for which buyers are willing to pay a price premium (Maguire et al., 2004; Rao and Bergen, 1992). Material quality is the foremost element that adds high differentiating value. Its property of being useful for the environment, humans and livestock carries the ability to sway a buyer’s eagerness to pay extra (Shang et al., 2010; Chuang and Yang, 2014; Dharmadhikari, 2012). Other environmentally friendly qualities that influence a buyer’s perception include recyclability, biodegradability and reclaimability (Zhang and Zhao, 2012).

Design characteristics that make packaging reusable and resealable (Chuang and Yang, 2014; Kassaye and Verma, 1992) were the focus of this part of the literature review because such attributes give packaging multi-utility properties and multiple usage significantly reduces waste. The authors found potential for green packaging in the properties described by Prendergast and Pitt (1996) that improve shelf life and described by Kassaye and Verma (1992) to keep products leakproof and airtight. It is desirable qualities such as these that are likely to influence buyers’ willingness to pay a price premium.

The impact of packaging information on consumer decision-making has been reviewed by various scholars (Thøgersen, 1995;

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