

The character of demand in mature organic food markets: Great Britain and Denmark compared

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Received 23 September 2005; received in revised form 13 November 2007; accepted 3 January 2008

Abstract

We investigate the organic food market in two selected European countries, Great Britain and Denmark, identifying main differences and similarities. We focus particularly on consumer perceptions and priorities, labelling schemes, and sales channels as a basis for assessing market stability and prospects for future growth. We employ a unique set of household panel data that includes information on stated values and concerns as well as registered purchasing behaviour. Most organic food on both markets is produced and processed by large-scale industrialised units and distributed through mainstream sales channels, consumer confidence being sustained at present by organic labelling schemes that appear to function well. However, a parallel market, based on the supply of goods through various direct sales channels to heavy users, prevails. We find that organic food purchase decisions are primarily motivated by 'private good' attributes such as freshness, taste and health benefits, attributes that may be perceived as being compatible with modern production and sales structure. Mature markets for organic foods nevertheless appear to be vulnerable to consumer dissatisfaction, particularly among heavy users of organic food products.

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Keywords: Organic foods; Valued product attributes; Consumer perceptions; Attitudes and behaviour; Labelling; Sales channels

Introduction

The market for organic foods is developing fast throughout Europe (Hamm et al., 2002; Wier and Calverley, 2002). Two relatively mature markets, Great Britain and Denmark, are especially interesting in this context. Britain has the most rapidly growing market, while Denmark has the highest consumption of organic food per capita in Europe (Morgan and Murdoch, 2000; Hamm et al., 2002). The British and Danish markets for organic foods share several important features. These markets function well and do not suffer seriously from supply short-

ages or other barriers that frequently hinder market development in other countries (Torjusen et al., 2004).

On the demand side, the recent growth in consumption of organic foods may be due to an increasing focus on the 'private' attributes of goods, such as health, taste and quality. However, if demand for organic foods is driven by 'public' attributes of goods, such as improved environmental and animal welfare, the structure of the modern organic market may represent a paradox. Organic farming has been traditionally viewed as representing a critical stance towards increasingly industrialised conventional farming (see e.g. Morgan and Murdoch, 2000). Earlier research has shown that organic farmers differ considerably from conventional farmers with regard to their attitudes towards environmental and animal welfare issues (Storstad and Bjørkhaug, 2003). Organic products have been frequently associated with attributes such as traceability, local origin

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and supply, small-scale units of production, adequate information through the chain from producer to consumer, all characteristics commonly associated with foods that are perceived as being safe and trustworthy. Nevertheless, the market structure of the organic food sector in Britain and Denmark today does not differ significantly from the conventional food sector, and lacks several of these features. Both markets are based on highly industrialised and concentrated units of production, distributed through mainstream retail channels. Organic products on both markets are sometimes highly processed, often imported, and consumer access to information about producers is frequently limited. Consumer dissatisfaction with these market features may underlie the recent growth of box schemes and other direct sales channels in both countries.

In this paper, we will analyse the British and Danish organic food markets in more detail, reveal purchasing motives, and discuss the ways in which organic production, consumer concerns and increasing industrialisation and market concentration appear to act together. Our study distinguishes itself by being based on household level observations of stated views as well as registered behaviour regarding purchases of a large number of organic as well as conventional foods, which makes possible a detailed and informative analysis. Since data on observed market behaviour have not been available in any country until recently, almost no studies of demand estimates for organic foods based on actual purchases have been published previously. The few exceptions are Brombacher (1992), Armand-Balmat (2002), Glaser and Thompson (1998, 2000) and Jørgensen (2001), who all use sales data or bar code scanner data from Marketing Research Institutes from Germany, USA and Sweden, respectively. Almost all other previous studies on organic foods have been solely based on postulated behaviour, i.e. stated willingness to pay (see e.g. Beharrell and MacFie, 1991; Bugge and Wandel, 1995; CMA, 1996; Coopers and Lybrand Deloitte, 1992; Drake and Holm, 1989; Fricke, 1996; Grunert and Kristensen, 1995; Jolly, 1991; Krämer et al., 1998; Misra et al., 1991). However, stated willingness to pay may not reflect actual behaviour (Carson et al., 1996; Cummings et al., 1995; Frykblom, 1997; Hansen and Sorensen, 1993).

Methods and data

Consumer utility is derived from consumption of goods, or rather from specific characteristics or quality attributes of goods. Following Lancaster (1994), each good can be distinguished by different characteristics in different proportions, i.e. bundles of attributes. In the following it is useful to distinguish between various types of product attributes or more general values or benefits. First, we distinguish between ‘private’ and ‘public’ goods. *Private goods* can only be consumed by one household (e.g. an organic potato can only be eaten once, in one household). In contrast, *public goods* can be shared (held in common), such that the utility of their consumption by any one household

is independent of (and does not exclude) consumption by other households.

Second, consumers who actually purchase organic foods (buyers) may obtain ‘use values’, such as utility from taste, health and freshness, i.e. private good attributes, which can only be enjoyed by actually consuming (eating) the product. In our study, ‘non-use values’ are defined as public good values related to improved environment and/or animal welfare. Other non-use values, not directly treated in this study, are *existence value* (utility from knowing organic farming exists), *vicarious value* (utility from indirect consumption, e.g. reading about or watching a television program on organic farming), *bequest value* (utility derived from endowing future generations with organic farming), and *altruistic value* (utility from knowing that other households are achieving utility). Finally, a further type of value is the ‘option price’, i.e. a kind of insurance premium corresponding to the value of retaining the option of possible future use of organic foods. For more on value types, see e.g. Freeman (1993).

To test significant differences between user groups, we apply the Likelihood Ratio test for independence in the cross tabulation of responses to specific questions by buyer/non-buyer status. The test compares the observed distribution with the expected distribution under the assumption that the answers are independent of buyer/non-buyer status. To explain actual purchasing behaviour, we apply econometric household level demand modelling. We have employed three different modelling approaches in our analyses. For reasons of brevity, only one of these is reported here, the others having been documented in Wier et al. (2005), and Millock et al. (2004).¹

With respect to demand in Britain, we employ household panel data provided by the market research institute TNS, encompassing the daily purchases of 15,000 households. These data include approximately 90% of all household grocery shopping by these households. We have access to purchase data for 5 product types (organic/non-organic weekly purchases of milk, eggs, yoghurt, fruit and vegetables) during 2001–2003. The data include household level information on expenditure and volume, as well as total basket expenditure and store choice for each of the 5 product categories. Approximately 20% of the sample is replaced each year, and the panel is continuously balanced to ensure that it is (geographically and demographically) representative of the British population. This is not fully achieved, however, the upper middle class being notably underrepresented. (See Appendix A for information on the demographic profile of the sample.) The panel members record the items purchased on every shopping trip using a

¹ Similar results are found when using other modelling approaches. In earlier analyses of these data, we have employed Logit modelling (Millock et al., 2004), in which the probability of being in a specific buyer group using same explanatory variables was estimated, as well as a micro-econometric demand model to explain organic budget shares, in which each household’s deviation from the average demand for organic foods is estimated as a household specific constant term.

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