



Research report

Product reformulation in the food system to improve food safety. Evaluation of policy interventions



Giuseppe Marotta, Mariarosaria Simeone*, Concetta Nazzaro

DEM, University of Sannio, via delle Puglie 82, 82100 Benevento, Italy

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ABSTRACT

The objective of this study is to understand the level of attention that the consumer awards to a balanced diet and to product ingredients, with a twofold purpose: to understand whether food product reformulation can generate a competitive advantage for companies that practice it and to evaluate the most appropriate policy interventions to promote a healthy diet. Reformulation strategy, in the absence of binding rules, could be generated by consumers. Results from qualitative research and from empirical analysis have shown that the question of health is a latent demand influenced by two main factors: a general lack of information, and the marketing strategies adopted by companies which bring about an increase in the information asymmetry between producers and consumers. In the absence of binding rules, it is therefore necessary that the government implement information campaigns (food education) aimed at increasing knowledge regarding the effects of unhealthy ingredients, in order to inform and improve consumer choice. It is only by means of widespread information campaigns that food product reformulation can become a strategic variable and allow companies to gain a competitive advantage. This may lead to virtuous results in terms of reducing the social costs related to an unhealthy diet.

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Introduction

Many processed foods contain high levels of unhealthy nutrients such as salt, hydrogenated fats, sugar and saturated fat. In developed countries, dietary changes have led consumers to exceed in the consumption of some of these products and in many cases consumers intake is beyond World Health Organisation recommended maximum levels (Traill, Gennaro, Koziol-Kozakowska, Kuhn & Wills, 2012).

In Europe there are numerous public policies to promote a healthy diet. Studies conducted to analyse the existing measures in Europe to promote healthier eating counted 121 policy interventions in 2011 (Capacci et al., 2012). Among government actions to encourage the private sector to promote healthy eating, reformulation is one of the potential measures, but it is still marginal in Italy and in many other European countries.

Our paper aims to examine the role of product reformulation for the food industry and to investigate whether this strategy can help those companies that decide to adopt it to gain a competitive advantage. Our findings will, on the one hand, increase knowledge of consumer awareness to guide future educational campaigns and, on the other, suggest tools to enable companies engaged in product reformulation, to find the right way to inform consumers about the

safety attributes of their products, compared to other competing products on the market.

The research focuses on the factors that influence consumer selection of healthy food with specific ingredients, with the aim to delineate those market segments in which product reformulation can be a successful marketing strategy.

The research was designed to provide answers to the following five research questions:

1. Consumer awareness and attention with respect to food safety: are consumers informed and aware of the quality of ingredients in processed products?
2. Can the nutritional information on the products solve the problem of asymmetric information and lead consumers to make informed choices?
3. Are 'healthy-minded' consumers more likely to trust transformers (industrial brands) or distributors (private labels)?
4. Can the product reformulation of healthy products be a competitive strategy for businesses, discernible by consumers in the food choice process?
5. Which policy tools are most effective in reducing market distortions and in promoting a more healthy diet?

Food chain and healthy diet

Figure 1 below proposes a theoretical scheme of the food chain and health. It stems from the analytical work of Marotta, Nazzaro

* Corresponding author.

E-mail address: msimeone@unisannio.it (M. Simeone).

(2012a,b). Figure 1 should be read by differentiating between the two quadrants that are to the right and to the left of the food system components. The chain that is on the left, creates a virtuous circle in each component ending up with the improved healthy diet. The right quadrant illustrates a system that generates social costs for the country, due to information asymmetry and the opportunistic behaviour of the different actors in the supply chain.

The left part of Fig. 1, shows a virtuous model for all operators in the food chain. The orientation to social responsibility of the various stakeholders leads to the reformulation of the product in a healthy manner, by means of a clear communication policy of the ingredients used in the transformation process, in order to promote an informed and responsible choice on the part of the consumer. This pattern of supply-chain behaviour leads to social benefits and welfare (Menghini, 2011).

In the right part of the diagram, a model of a profit-driven food chain, is represented, in which the opportunistic behaviour of some operators and information asymmetry may determine conditions which induce food choices and, therefore, lead to undesirable effects on the consumers' health, bringing about social costs.

Opportunistic behaviour (model on the right in Fig. 1) can sometimes be induced by the conviction, on the part of operators, that repositioning their products may scare many consumers who perceive such reformulated healthy products as expensive and less tasty.

Erroneously, the externalities of production refer mainly to environmental damage, but from the observation of reality several examples of damage to the health of the consumer emerge.

The market imperfection analysed in this work focuses on the consumer and stems from the lack of information s/he has at the time of purchase. This sometimes leads him/her to make choices based on the quality perception of a product, not having the possibility to reach the desired level of food safety.

The solution for these market imperfections should be sought in the intervention of the government, which often fails to apply valid regulations. Lack of intervention can stem from partial information and/or from the pressures of interest groups and lobbies.

In the virtuous quadrant in Fig. 1, the imperfections are corrected by means of a regulatory framework and by traders who opt for a model of business-oriented social responsibility through repositioning strategies which focus on creating both economic

and social value (Marotta and Nazzaro, 2012a; Marotta and Nazzaro, 2012b).

The reformulation of food products for a healthy diet

The reformulation of food product labelling, aimed at improving food safety through the innovation process followed by the industry, may be the result of mandatory regulatory actions or voluntary cooperation actions among food-producing industries (Traill et al., 2012). To encourage companies to reformulate, there are sometimes collaborative actions between the government and the food industries. In Italy, there is no binding regulation aimed at product reformulation and thus no obligation to reduce the presence of unhealthy ingredients (e.g. to avoid hydrogenated fats, banned in other countries). There are, however, some-voluntary agreements, for example the one stipulated between the Ministry of Health and some producers of bakery products including leading companies, such as Barilla, for salt reduction and the elimination of hydrogenated fats (trans fats).

The agro-food industries are faced with the two following choices:

- To continue to produce unhealthy food by increasing the asymmetric information between producers and consumers on the basis of erroneous and misleading marketing communication.
- To reformulate their products and thus reduce market failure to act in accordance with corporate social responsibility. This could generate a competitive advantage over other companies in the market (Scarpato & Simeone, 2013; Simeone & Marotta, 2012).

In the first case, we are faced with the opportunistic behaviour of an economic agent, generally a corporation that produces junk food and gains commercial benefits from such production, but does not pay all the social costs associated with the consumption of its products. We are therefore facing the classic example of market failure. Due to information asymmetry, the consumer does not have sufficient information on food products and on the presence of unhealthy ingredients, this results in a limited cognitive ability to choose his/her own basket of food products. This situation,

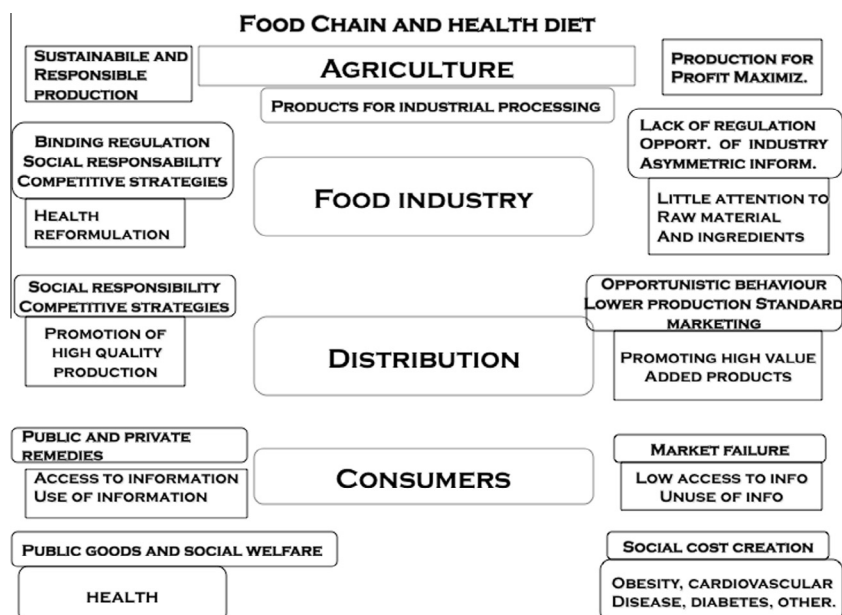


Fig. 1. Food chain and healthy diet.

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