

Consumers' willingness-to-pay for quality food

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Key role of the consumer

- The supply chain exists to serve the consumer
- Consumers' valuation of the product determines the value added to be distributed back up the chain



Given existing legislation, the question is :

What value do consumers place on

- **extra guarantees** that the food *they* actually purchase meets the legal minimum quality requirements ?
- **quality differences** over and above the minimum requirements ?

In economic jargon, what is the consumer's willingness-to-pay for quality ?



Willingness-to-pay = preference?

consumer's underlying preferences

- income
- knowledge
- trust

are constrained by



Willingness-to-pay = preference?

consumer's underlying preferences

- income
- knowledge
- trust

consumer's choices

willingness-to- (observable



Why is willingness-to-pay difficult to measure?

- Prices are changing all the time (special offers, discounts, seasonal factors, differences in location)
- Many products have several quality attributes – how to measure consumers' valuation of each separately?



Willingness-to-pay extra for quality

WTP for extra quality is distributed over individual consumers from zero to the highest amount

WTP for extra quality depends on the quantity purchased

WTP a specific price premium depends on the price of the lower quality good

Trade-off between size of price premium and market share



FOOD QUALITY ASSURANCE SCHEMES

Within-chain
standards and quality
protocols

does not lead to product
differentiation, possibly to
differentiation by store or
type of outlet

- **can try** to measure whether consumers benefit from this
- **very difficult** to measure consumers' willingness to pay for it

Quality
differentiation on the
final product market

differentiation of final
products according to
quality attributes

- **possible** to measure consumers' WTP for specific quality attributes
- **many** different approaches and methods exist



Product differentiation by quality attribute

- Region (PDOs, PGIs)
 - Comté cheese
 - Dehesa de Extremadura ham
- Organic production
- Particular rearing/manufacturing methods
 - Free range eggs
 - Farmhouse cheese
- Environmental/ethical characteristics
 - Neuland meat
 - Fair Trade coffee

Products may have attributes from several categories



Empirical information on WTP for food quality (1)

Two types of

data

Actual choices

(RP - revealed preference)

Hypothetical choices

(SP - stated preference)

Typical data sources

- Scanner data
- Purpose-built surveys of what consumers buy (e.g. budget surveys)

- Contingent valuation (CV) surveys
- Contingent behaviour surveys (e.g. choice experiments, experimental auctions, intentions surveys)



Empirical information on WTP for food quality (2)

Actual choices

- Scanner data
- Purpose-built surveys

Hypothetical choices

- CV surveys
- Choice experiments, etc

Typical data pros & cons

- other information (consumers' income, product knowledge etc) often not collected
- limited to products on the market
- non-experimental data – may raise problems for analysis

- **hypothetical bias**
- can extend to products not yet available
- experiments can be designed to avoid problems that make analysis difficult



Hypothetical bias (HB)

How to deal with hypothetical bias ?

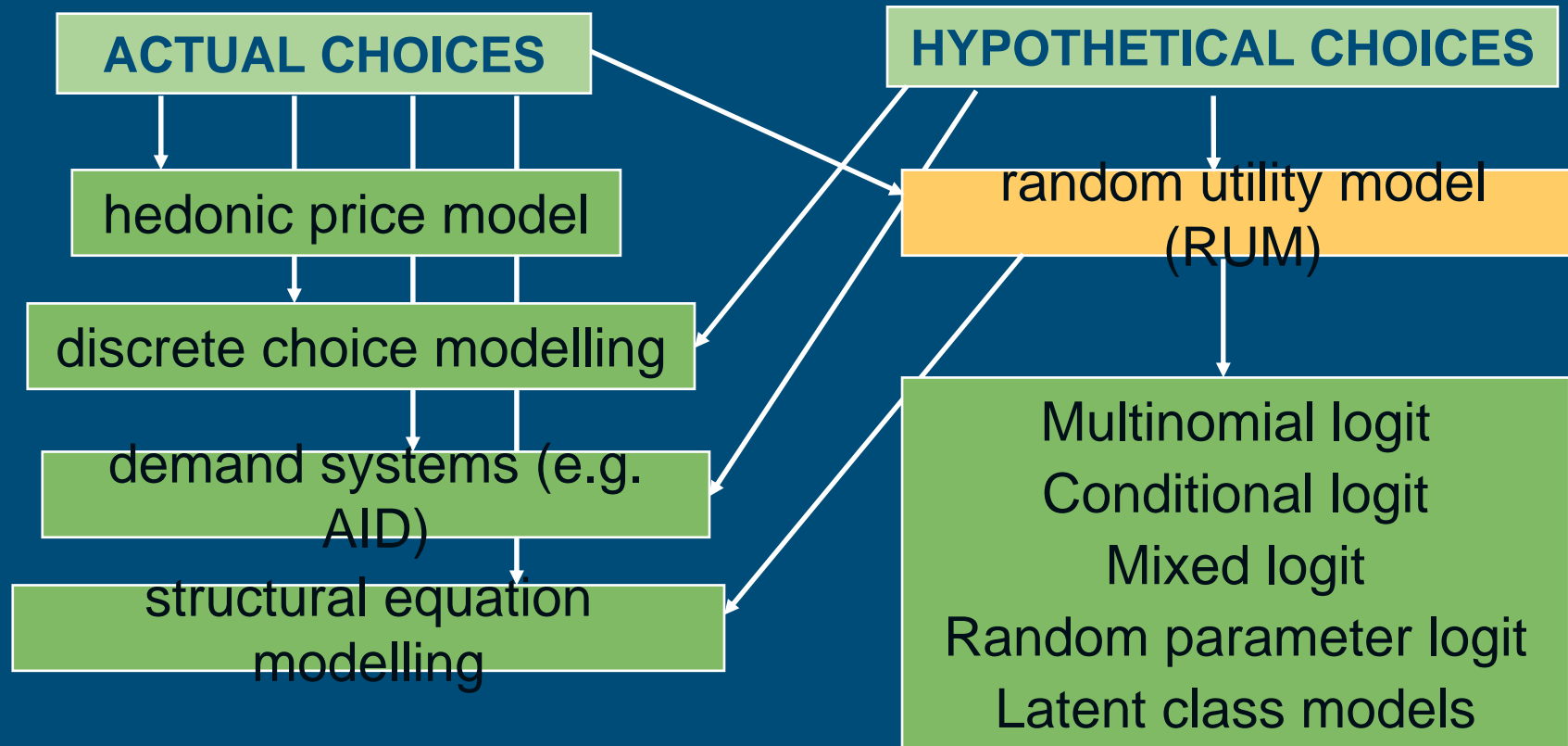
- Skillful design of experiment/survey
- 'Cheap talk'
- Explaining 'real' consequences of the survey

Note: studies have found that

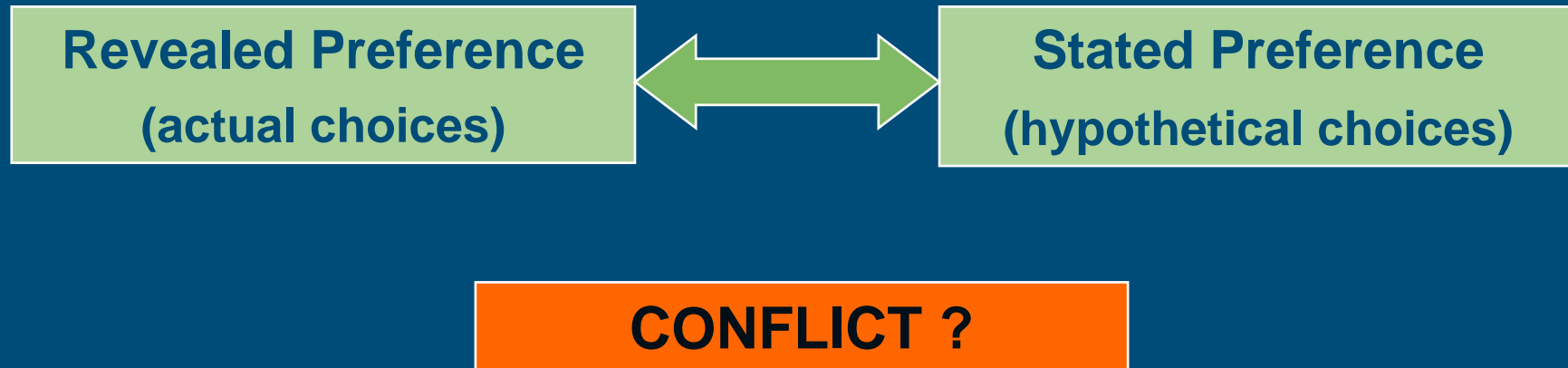
- HB a problem only with **direct elicitation** (i.e. contingent valuation, but not choice experiments)
- Bias due to **non-anonymity** can be as great as HB (for both RP and SP valuations)



Methods for estimating WTP for quality (1)



Methods for estimating WTP for quality (2)



Methods for estimating WTP for quality (2)

Revealed Preference
(actual choices)

=

Stated Preference
(hypothetical choices)

CONFLICT ?

COMPARISON/ CROSS VALIDATION ?



Methods for estimating WTP for quality (2)

Revealed Preference
(actual choices)



Stated Preference
(hypothetical choices)

CONFLICT ?

COMPARISON/ CROSS VALIDATION ?

JOINT ESTIMATION ?



Questions and discussion

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