Consumer Behaviour Towards Organic Grocery Products

Store Brands vs Manufacturer Brands

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Abstract

Demand for organic food is growing in most developed countries. In Spain this category is being driven by large retail groups via their store brands. The aim of this work is the study of consumer attitudes and behaviour towards organic food products under two different brand types, manufacturer brands and store brands, seeking to address the brand relevance on consumer choice for these products.

The two main objectives of our work are: to obtain an insight into the reasons which may trigger a positive or negative consumer attitude towards organic food branding; and also to uncover the reasons for buying organic store brands and barriers for not buying them. We study potential consumer preferences either for store brands or manufacturer brands, exposing brand equity and consumer reliability.

It is generally accepted in the literature that the drivers for consumption of organic products may be due either a "health concern" (it is good for my health or my childrens`), or a "feel good" factor (it makes me feel better), the latter being an adaptation of consumer behaviour to their ethical values regarding the environment and production sustainability.

Results from this work allow us to conclude that a collaborative sales strategy among manufacturers and distributors would foster consumption of this product category in Spain. The price gap between organic and "standard" products and merchandising at point of sale are two key factors to address in order to develop the category.

Introduction

This work aims to contribute to the improvement of the management, knowledge and growth of the organic products as a category within grocery chains. To that end we exposed the respondents to a series of issues based on literature revision and previous work to allow us to evaluate the drivers to buy or not to buy within this product category and establish some pattern of behavior.

Consumer behaviour towards organic food has been studied more thoroughly in the last couple of decades. A few academic works analyse the organic food consumer, also some company reports focus on them due to their market potential. Many authors (Kaiser and Wilson, 2000; Laroche, Bergeron and Barbaro-Forleo, 2001; Brugarolas

and Rivera, 2002 and Fraj & Martínez, 2004) focus their research on studying which variables allow a better undestanding of the main drivers of consumption of these products for a consumer segment. There is still little scientific research about the role of store brands in the development of the organic food category. We treat organic food products as a supra-category which encompasses different food categories across the board.

Some authors focus their research on the study of demographic and socio-economical variables (Vining and Ebreo, 1990; Fraj and Martinez, 2003). Other authors centre on the level of consumer knowledge about environmental issues (Ramsey and Rickson, 1976; and Grunert and Kristensen, 1992). Others focus on psychographic variables (Granzin and Olsen, 1991 and Ramanaiah et al, 2000). Finally some authors focus their reseach on a combination of psychographic and knowledge variables (Fraj and Martinez, 2007). This work follows the latter line of research.

Research carried out by Mintel company (2009) shows consumers are ready to pay a premium price for products believed to be more "enviromentally friendly", but only "a bit more", pointing at the price as the main barrier when buying organic food. Some authors like Laroche, Bergeron y Barbaro-Forleo (2001) also conclude this.

According to Vicente et al (2007) and Puelles, Briz & Labajo (2008), store branded organic products are significantly more expensive than conventional store branded products, but in all cases their price is lower than the organic products under manufacturer brands by about 15-20%. In an economic downturn the lower price of store brands may maintain demand for this product category.

Some experts (Schmid, Fontguyon & Sans, 2007) believe that the large International Food distribution chains hold the key to the future of the organic food market.

Discussion and Hypotheses

According to literature and industry reports there is strong evidence of price being a very relevant factor in consumer behaviour towards organic products. We believe store brands may have a stimulating effect on demand, narowing the price gap between organic products and standard ones (non organic).

We intend to contrast the importance of price of organic products for the Spanish market, being this part of one of our hypotheses. We also try to establish the main drivers and the key barriers for consumption. We challenge the role of store brands in the development of the organic food category.

- H1: The main drivers of consumption of organic food are "Health concerns"; "Higher Quality" and "Environmental awareness".
- H2: The main barriers for consumption of organic products are the difficulty of access the products and the price.
- H3: Price sensitivity is bigger for "non buyers" of organic products than for those who actually buy them.
- H4: The shopper trusts manufacturer brands more than store brands when buying organic products.

Overall we hope to contribute to a better understanding of the organic foods category within food retail companies, and the role of branding in the development of the category.

Procedures for collecting data

We have developed a quantitative research survey, using personal interviews to shoppers with the following characteristics:

The questionnaire was specifically designed to detect key factors for decision making, using scientifically validated scales to collect this information. The interviews took place at the exit point of the supermarkets, after payment at the cash desk.

The universe consisted of shoppers, men and women, over 18 years old, residing in the Madrid region who shop regularly at stores belonging to the main Spanish retail groups.
The sample comprised 350 respondents, 10 interviews were depurated having a final 340 valid sample. The sampling method was random, although a correcting system was applied to avoid bias on the structure of the final sample, applying predefined quotas for the variables sex and age. Hence we achieve a representation of the different profiles of existing shoppers. The sampling error for global data is ± 5,4%, for a confidence interval 95’5% and P=Q=50.

The questionnaire used was of a structured type, containing sufficient questions to meet the research objectives. The questionnaire lasted duration of seven minutes. Before starting the field work the questionnaire was piloted with 25 respondents to verify that the target group understood the questions correctly. As a result questions 6, 8 and 10 were modified.

Data was collected in the field during February 2009 by personal interview at the exit of the supermarkets. A total of four interviewers were used, a supervisor and a field coordinator, all of whom had previous similar experience. All the open or mixed questions in the questionnaire were coded by applying a code guideline manual designed ad-hoc for this work. All the valid questionnaires (340) were recorded on specialised software for questionnaire management (Gandia Barbwin). The resulting data file underwent some controls to verify the correct recording.

Results, Figures and Tables

The identification of the main drivers for buying and for “not buying” organic products that we see on Table 1 reinforce the results of previous studies mentioned above, with the most mentioned reasons “they are healthier”, “higher quality” and “environmental awareness” and allows validation of Hypothesis 1, although there is a significant difference regarding the importance given to the environmental issues by consumers in our research compared to MARM (2008) data (Ministerio de Medio Ambiente y Medio Rural y Marino).

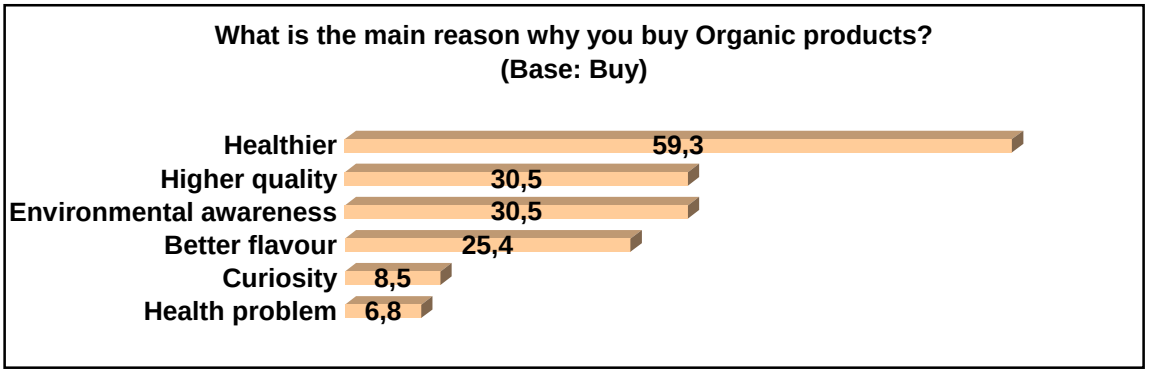
TABLE 1. Comparative results between this work and MARM research on reasons for buying or not buying organic products.

		MARM 2008	Llorens, Puelles and Martín 2009
Consumes organic products		64.1 (57.1[1])	34.,7
Reasons for Consumption	Healthier	68.1	59.3
	Higher quality	26.9	30.5
	Better flavour	23.9	25.4
	Environmental awareness	7.0	30.5
	Curiosity	8.8	8.5
	Self grown	3.3	-
	Health problems	-	6.8
Barriers for Consumption	Lack of knowledge	28.8	11.9
	Higher Price	25.1	33.9
	Cannot be found easily	21.3	34.0
	Cannot see advantages against non organic products	14.8	-
	Do not trust	10.9	14.7
	Lack of habit, not thought about it	7.2	28.4
	Not interested	1.2	22.9
Source: authors with data from MARM 2008. "Observatorio del Consumo y distribución agroalimentaria" and the research work by the authors.			

The second main driver for buying contained in H1, is contrasted because "Quality" is the main reason for buying organic products for 30.5% of shoppers of this type of products, furthermore, the principal reason for buying them ("They are healthier"), has a strong correlation with the "Quality" concept of the current buyers.

The main reasons for buying organic products are illustrated on Figure 2

Figure 2. Reasons for buying Organic products.



Source: authors

[1] Data for Comunidad de Madrid only.

Regarding the main reasons for "not buying", one in three (34%) of "non buyers" of organic products say that their main reason for not buying organic products is that they are not easy to find in the supermarket. In a similar percentage 33.9% of "non buyers" of organic products say that their reason for "not buying" is that the higher price of these products compared to the standard (non organic) products. This would support Hypothesis 2.

The latter statement is complemented with the different price sensitivity between the segments of "buyers" and "non buyers" of organic products, as we see in Table 2. While 54.2% of organic product buyers would be ready to pay a price premium of 20% for consuming this type of product, only 18.9% of "non buyers" would consider incurring the extra cost. Even a relevant 16.9% of "organic buyers" would consider a price premium of up to 30%, against 2.1% of "non organic buyers" who would do so. This clear difference evidences Hypothesis 3.

Table 2: Cross data of "has bought organic products" by "How much more would you pay for an organic product" (% verticals)

		Yes	No
Base:	350	121	229
More than 30% over the price of a standard product	2.5	3.4	2.1
Up to 30% over the price of a standard product	7.6	16.9	2.1
Up to 20% over the price of a standard product	32.5	54.2	18.9
Up to 10% over the price of a standard product	49.0	55.9	44.2
Nothing more / The same price as a standard product	58.0	50.8	62.1

Source: authors. Jhi^2= 25,76; g.l.: 8; sig.: 0,000

The lower price sensitivity of demand regarding price by the buyers of organic products is based on the fact that they consider organic products "Healthier"(59.3%), as well as "Higher quality" (30.5%).

We also conclude how a different consumer brand perception leads consumers to have a stronger preference for manufacturer brands above store brands, as seen in Table 3.

The results obtained on buyers` confidence in brands leads us to accept Hypothesis 4. Almost one in two shoppers (48.8%) state that Manufacturer brands are more reliable for organic products than Store Brands; although a relevant 40.6% states that they are indifferent regarding either brand type, as we see on Table 3.

Nevertheless, even with the observed preference for Manufacturer brands, it is interesting to see on the same Table 3, that the actual "organic buyer" is more inclined to buy Store brands (15.3%) comparatively than the "non organic buyers" (1.9%).

Table 3: Cross data between "Has bought organic products?" and "Preference for Manufacturer Brands or Store Brands". (% verticals)

		Yes	No
Base:	350	121	229
Manufacturer Brand	48.8	45.8	49.1
Store Brand	6.5	15.3	1.9
Indifferent	40.6	33.9	45.4

Does not know	4.1	5.1	3.7

Source: authors. Jhi^2= 16,69; g.l.: 6; sig.: 0,010

The following Table 4 summarises the result of the contrast of the hypothesis of this work.

Table 4. Summary of results.

Hypothesis	Accepted?
H.1	Yes
H.2	Yes
H.3	Yes
H.4	Yes

Conclusions

The results of this research show certain patterns that may lead to implement a sales strategy to foster consumption of this product category in the Spanish market. We believe this strategy should be developed jointly by brand manufacturers and retailers under a “category management” collaborative approach.

We find that merchandising at point of sale is very important to improve sales of this product category, as it is not considered top of mind and is not usually on the shopping list. Furthermore the buyer cannot find organic products easily in the store.

We have introduced the Store brands as a key player which may help to overcome one of the main barriers for buying organic products, namely the price differential beetween organic and standard products. Store brands make organic products more affordable for those buyers who are more price sensitive, enabling change in choice. This may enable Store brands to become a key player in the development of this category.

Among the most relevant conclusions of this work we highlight that the main driver for consumption is “self-centered”, relating to personal health, being the environmental awareness (altruistic factor) a lesser motivation. This fact has some business implications, indicating to manufacturers as well as distributors where their brand communication message should be focusing.

Another relevant conclusion is that merchandising, or arrangement of these products at the point of sale, must be improved, due to the fact that the buyer does not identify organic products easily in the store nor are they “top of mind” when shopping. Both elements combine to limit sales, therefore we conclude that better in store merchandising would make these products more accesible at the point of sale and may lead to increased sales.

In terms of shopper motivation for store choice we find that organic products by themselves are not attractive enough to drive people into the store. This means that retailer's communication should not be based on this category as it is not relevant enough in the shopping trolley, but a marginal complement to the mainstream shopping list. This conclusion may have business implications limiting the efforts of retailers when developing the organic product category.

Regarding the use of store brands as a mean of increasing sales of organic products, we believe our conclusions above indicate that retailers have an opportunity to develop the category improving the mentioned variables (communication, merchandising, price differential) under their management.

We have demonstrated that manufacturer brands are more trusted by shoppers when buying organic products. This may have implications for category definition by retailers, allowing more presence of manufacturer brands than their own offer, although another alternative for retailers would be to focus their consumer communication on the quality of their organic store brands. If they achieve this objective, together with maintaining a very relevant price differential with manufacturer organic brands, we believe they may achieve a significant sales increase for the category as a whole as we find in this work that current organic buyers are more inclined to buy store brands than non buyers of organic food.

International and managerial implications

We have set up the study of organic food products treating them as a supra-category to be developed between retailer and manufacturer in a collaborative effort under a category management approach, which would allow a value proposal for the customer and foster the joint development of the category. This is an innovative approach from the academic as well as the managerial point of view.

This work does not aim at being comprehensive but tries to define customers´ behaviour towards organic food products and centre on the drivers for consumption as well as the barriers. We also study the role of store brands within a collaborative environment in the distribution channel focusing on the category management approach.

A likely limitation of this work is that field work took place within the context of an economic crisis, both within Spain and worldwide. This has had undoubtedly had an effect on private consumption, price being an important barrier towards buy these products. The economic downturn may have biased results increasing price concerns and the search for alternative cheaper options.

For future work it will be interesting to study the evolution in time of shoppers´ attitude towards these products, and to track variations over time in the so called environmental awareness of the Spanish shopper, which we envisage will grow in line with the evolution pattern in other countries where this product category is more developed such as Germany, UK or USA. Finally we consider it will be of great value to be able to compare results in Spain with those of other countries.

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