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Willingness to pay a price premium

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Outline of presentation

- Why WTP studies are important
- How to measure premiums
- What we did
- What we found for different types of origin label
- What we found for key product groups
- Limitations
- Summary

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Why is it important?

- To estimate the size of GI market using consumer data
- To answer questions:
  - what proportion of consumers will pay a premium?
  - what kinds of consumers will pay a premium?
  - how much premium they will pay?
  - how does the premium vary between products and countries?

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What we did

- Systematic literature search and review for academic papers and studies
- 100+ publications found
- Analysis by
  - Regions (EU, extra EU…)
  - Type of label (COOL, local, GI…)
  - Products (wine, coffee, cheese, meat…)
  - Methodology (various econometric „models”)

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General overview of the papers

- Concentrated territorial focus (Italy, USA, Spain)
- Usually positive WTPs are reported

BUT

- Only a few papers gave numerical estimates of price premiums;
- Some value premiums for EU GIs (2010)
- Huge heterogeneity

Country of origin labels (COOL)

- Not eligible for GI labelling
- But analysis of COOL shows
  - very strong preferences for domestically produced foods
    - ➢ A few exceptions
  - link to food safety issues
- Very few report **specific** price premiums
  - C €2.5 / crate premium for Bavarian beers,
  - + 68-99% for Taiwanese products
  - double price for Greek wines

EU GI labels

- Diverse results
- Many positive results
  - **but methodological limitations**

- Consumers value trademark more than PDO label
  (Parmeggiano Reggiano, Prosciutto di Parma, Camembert)
- No difference in WTP between GI and not GI
  (Spanish cured ham, French camemberts)
- Only a small segment of consumers WTP premium
  (Greek apple, Italian GI products in general)
- Country of origin valued more than GI label
  (Olive oil sold in Canada)

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EU GI labels – contradictions

- Who pays more, local or more distant consumers?
    - Italian dry-cured ham: locals pay less, they rely less on formal certification cues
    - Italian olive oil: consumers living in the region value the product more
- For very top quality products, consumers rely on other quality signals, not GI labels
  (Spanish dry-cured ham)

“Local” origin

- What is local? (Italian island ↔ US state)
- Overall positive attitude towards local
- Freshness, better taste, higher quality, guaranteed origin
- Positive attitudes generally found
  - but very few give numerical WTP estimates
    - ➢ 3% in Dominica
    - ➢ 27% in South-Carolina

Methodological concerns

- The methodology used highly influences the estimated WTP
- Different techniques bring (very) different results and conclusions
  (South-African lamb)
- WTP calculated with stated preferences was 40-65% while with revealed preferences it was only 20-30%
  (Spanish fresh tomato)

Wine premiums: single study findings

- GI wines achieve premiums that are progressively higher as the price level of the wine increases (Italy)
- Consumers of lower quality wines willing to pay double the price for a guarantee of place of origin (compared to normal table wine) (Greece)
- Premium price for GI labelled Italian wines (Russia)

Premium for coffee

- Only GI product with high premium produced in developing countries (and sold in developed countries)
- Time required to establish the reputation and to achieve the premium

  (Café Veracruz, Mexico and Marcala Coffee, Honduras)
- Big premium diversity among countries

  (Antigua Coffee, Guatemala 8% - Kona Cofee, Hawaii 145%)

  (US online sale: 20-58% of premium for different varieties)

Cheese premiums: single study findings

- Consumers do not value the PDO quality signal, brand appears to provide more relevant information (France)
- Impact of GI labels much smaller than organic labels; impact limited to shopping venues like super- and hypermarkets (Germany)
- Spanish consumers were willing to pay similar price premiums for PDO and organic cheese

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Meat premiums: single study findings

- No premium for PDO ham (Spain)
- Consumers more leaned sensorially towards the own regional product (with or without PDO), the PDO scheme attracts a segment of consumers, but still the origin by itself is a more powerful signal of quality (Spain)
- Local consumers willing to pay a lower premium price than non-local consumers (ham, Italy)
- Consumers value Consortium trademark more than PDO label (ham, Italy)
- PDO label valued, but valued more when associated with other quality attributes (ham, Italy)

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Measuring premiums

$$Price\ premium\ (\%) = \frac{GI\ price - non\ GI\ price}{non\ GI\ price}\ x\ 100$$

$$Value\ premium\ rate = \frac{\sum(GI\ volume\ x\ GI\ price)}{\sum(GI\ volume\ x\ non\ GI\ price)}$$

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EU GI premiums

	Share in GI sales %	Value premium
Spirits FR	3.9	4.22
Wine ES	6.4	4.06
Wine FR	28.9	3.4
Spirits IE	1.1	3.4
Wine IT	10.6	2.35
Spirits UK	8.2	2.25
Wine DE	4.2	1.88
Wine PT	2.0	1.86
Agri IT	11.0	1.73
Agri DE	6.2	1.67
Agri ES	1.6	1.64
Agri FR	5.6	1.5
Wine AT	1.4	1.32
Agri GR	1.4	1.29
Agri UK	1.9	1.07

Source: AND-International (2012)

Summary

- All results generally positive, but few numbers
- Challenging to estimate WTP
  - Methodological issues
- Variability and contradictions in findings
  - In terms of types of products
  - Between countries for similar products
- The heterogeneity of the GI products makes it almost impossible to get general results

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Thank you for your attention!

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