



European Mountain Agrofood products, Retailing and Consumers

## Premia for differentiated products at the retail level: can the market put a value on the mountain attribute?

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- Motivation for the presentation
- ‘Mountain’ as a differentiating attribute
  - Quality attributes and cues
  - Empirical approach
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- Conclusions and Discussion



## Brief overview of the WP2 research - 1

### Objectives of WP2 survey work

- To identify and analyse:
  - the market channels that are, and could be, used for mountain quality-food products
  - retailers' interest, perceptions and expectations of mountain quality-food products
  - the marketing attributes of mountain quality-food, and
  - factors inhibiting the marketing development of mountain quality-food products.
  
- To propose strategies to improve and expand the marketing of mountain quality-food products.



## Brief overview of the WP2 research - 2

- DL3 - contains a review of the marketing of mountain quality food products for each country in the project.
- 3 retailers' surveys have been carried out:
  - (1) shelves surveys, 90 per country (completed)
  - (2) face to face surveys, 20 per country (completed)
  - (3) postal surveys, 90 per country
- The shelves surveys were targeted at retailers who are actually selling mountain food products.
- The face to face and postal survey involved all food retailers.
- The structure of the DL8 document has been circulated, also summaries of the shelves surveys results for partners to write their country comments.
- Summaries of the postal questionnaire results are being generated and will be circulated in November.





Premia for differentiated products at the retail level:  
can the market put a value on the mountain attribute?



## Motivation

- The concept of a mountain quality-food product is a complex one, because it evokes different images for different consumers.
- The purpose of this paper is to explore whether the market puts a value on the 'mountain' attribute at the retailer level
- This is studied using prices from representative products from several European mountain ranges - Highlands, Alps, Massif Central, Norway.



## Quality attributes – 3 types

### Search attributes

- ascertained prior to a product's purchase (e.g. colour of meat, marbling, etc).

### Experience attributes

- cannot be determined prior to purchase, but can be ascertained during consumption (e.g. taste and texture).

### Credence attributes

- cannot be determined prior to purchase or during consumption (attributes which are believed to exist – e.g. the welfare conditions experienced during a lamb's life or whether a product's ingredients were actually produced in a mountain area).



## Categorisation of potential 'process' & 'product' quality attributes of organic meat from a mountain area

Process Attributes	Product attributes				
	Food Safety	Nutrition	Sensory	Functional	Image
Animal welfare (C)	Absence of Residues (C)	Fat content (S, E, C)	Appearance (S)	Product life (S and E)	Prestige Value (S, E, C)
Biotechnology (C)	Absence of artificial Hormones (C)	Energy content (C)	Taste (E)	Preparation Convenience (S and E)	
Organic production (C)	Absence of Additives (C)	Vitamins and minerals (C)	Texture (E)	Consumption Convenience (E)	Prestige value (S,E,C)
Traceability (C)	Absence of Toxins (C)		Tenderness (E)		
Feed and Feeding system (C)	Absence of Physical contaminants (E and C)		Juiciness (S and E)		
Mountain Production Environment (C)			Freshness and Taste (S and E)		Prestige value (S,E,C)
Treatment(s) in processing (C)			Smell (S and E)		

Note: S = Search attribute, E = Experience attribute, C = Credence attribute. The classification of the attributes into search, experience and credence is that of the authors.

Source: Developed from Northen (2000).



## Communication of Quality Attributes

- Consumers' perceptions of quality prior to purchase are based on **quality cues**:
  - stimuli which lead to the perception of certain quality attributes being present and which determine when, where and how a person responds (Kotler, 1980).
- **Intrinsic quality cues**
  - cannot be changed or manipulated without changing the physical characteristics of the product itself.
- **Extrinsic quality cues**
  - are related to the product but are not physically part of it.



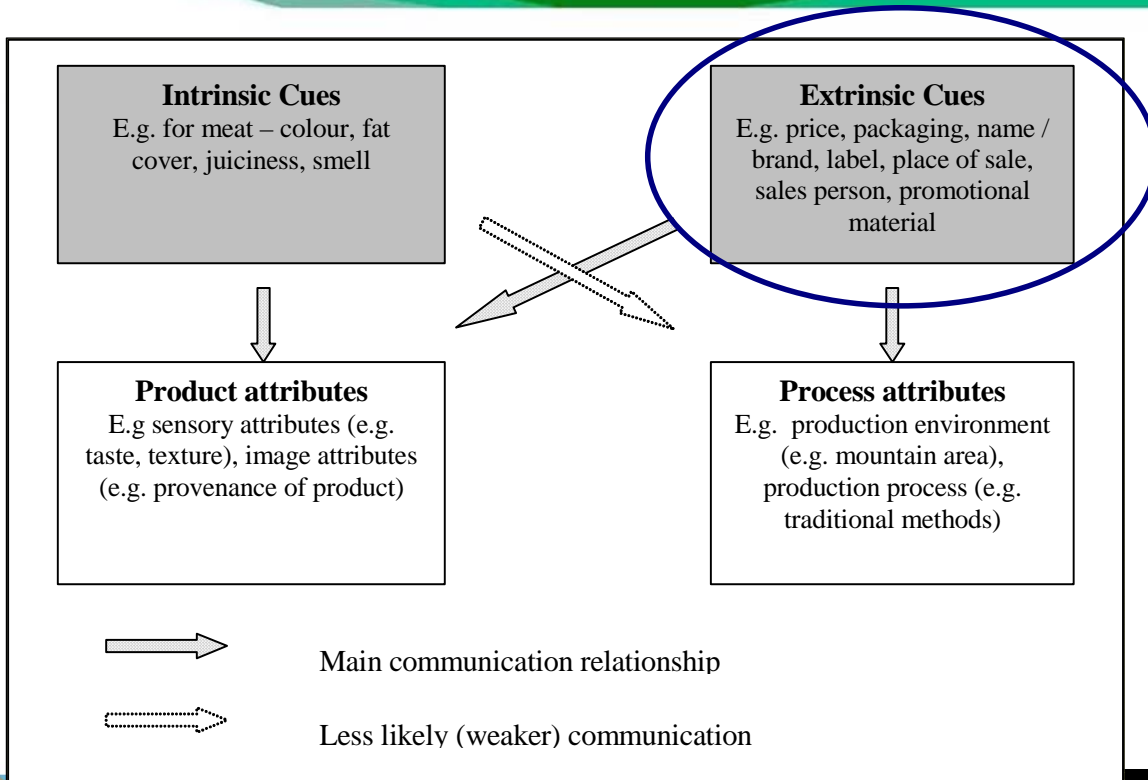
## Venison cues

- Intrinsic, e.g.
  - colour, leanness, fat cover, juiciness, type of cut, origin, etc.
- Extrinsic, e.g.
  - price, brand name, packaging, label information, point of sale information, presentation of product in sales outlet, reputation of outlet, activities of salesperson, other promotional activity, etc.

The influence of marketing



## Cues and attributes



## The shelves survey and its data

- What Mountain Quality Food Products are available – how are they marketed?
- 351 outlets, 564 shelves, 1765 products.
- 60% from mountain area shops, 40% elsewhere.
- 18 product categories – combined into 6 product groups: beverages, fruits, dairy, meat, meat products and other.
- Supermarkets, speciality shops, mini-markets and farmers' markets



## Empirical approach

- Based on information collected by shelves survey, hedonic price regressions were estimated for several products (apples, sausages, water and cheese) and countries (Austria, France, Norway, Scotland and Slovenia).
- The aim was to estimate whether the market is paying a premium for 'mountain' food quality products over the price paid for equivalent 'non-mountain' food products.



## Hedonic price regression

- The hedonic price method is a useful approach to study the price-quality relationship of a product.
- The method consists of a regression analysis of the price on the selected product characteristics. It has been widely used for both durable (e.g., automobiles) and non-durable goods (e.g. wine, cereals, foods).
- The implicit price of a characteristic is defined as the derivative of the price with respect to the product attribute.



## Results

	Austria	France	Norway	Scotland	Slovenia
Apples	--	<ul style="list-style-type: none"> <li>•No price difference between mountain and non-mountain products</li> <li>•Small non-specialised shops sell cheaper</li> </ul>	--	--	--
Sausages	--	<ul style="list-style-type: none"> <li>•Non-mountain product receives a premium</li> </ul>	<ul style="list-style-type: none"> <li>•No price difference between mountain and non-mountain products</li> </ul>	--	--
Water	<ul style="list-style-type: none"> <li>•Non-mountain product receives a premium.</li> <li>•Mountain shops are more expensive.</li> <li>•Non specialised shops sell at a cheaper price.</li> <li>•Flavoured water is more expensive.</li> </ul>	<ul style="list-style-type: none"> <li>•Non-mountain product receives a premium.</li> <li>•Specialised shops sell at a more expensive price.</li> </ul>	--	--	--
Cheese	<ul style="list-style-type: none"> <li>•Mountain product receives a premium.</li> </ul>	<ul style="list-style-type: none"> <li>•Non-mountain product receives a premium.</li> </ul>	<ul style="list-style-type: none"> <li>•Mountain product receives a premium.</li> </ul>	<ul style="list-style-type: none"> <li>•Supermarkets sell at a cheaper price.</li> <li>•Hard cheese shows prices below average, and blue cheese the opposite</li> </ul>	<ul style="list-style-type: none"> <li>•Mountain product receives a premium.</li> <li>•Prices in mountain area stores are cheaper.</li> <li>•Hard cheese is more expensive than the average and cream cheese is cheaper.</li> </ul>

## Conclusions and Discussion

- The theoretical framework on attributes and cues helps to reveal the nature of the “mountain” attribute in product marketing.
- The cues which convey the “mountain” attribute may in some instances be intrinsic (e.g. a distinctive taste or smell).
- In many instances the “mountain” attribute and its various aspects may need to be communicated by extrinsic cues (well-designed marketing effort) in the form of: labeling, packaging, a relatively high price, information from the sales person, etc.

## Discussion point

### Differentiation and the value of the 'mountain' attribute

Degree of Differentiation	Product provenance	Role of the 'mountain' attribute
<b>Homogeneous product (no differentiation)</b>	The product is produced in <b>both</b> mountain and non-mountain areas.	The attribute 'mountain' does not produce any discernible differentiation.
<b>Partially differentiated product</b>	The product is produced in <b>both</b> mountain and non-mountain areas.	<p>The attribute 'mountain' may differentiate the product, relative to the non-mountain substitute product, due to a special raw material, production environment, or production process.</p> <p>The 'mountain' attribute may create value, relative to the non-mountain product, and can be combined with other value creating attributes (e.g. Cairngorm Mountain Farmhouse Cheese).</p> <p>The 'mountain' attribute can be the basis of a quality label.</p>
<b>Totally differentiated product</b>	The product is <b>only</b> produced in mountain areas.	<p>With no direct substitute, the 'mountain' attribute may be enhanced with other value creating attributes (e.g. Cairngorm Mountain Heather Yoghurt) for differentiation from other mountain products.</p> <p>However, 'mountain' can still be the basis for a 'quality' label.</p>



## Conclusions - 1

- The analysis has sought to test whether the 'mountain' attribute carries or attracts a price premium relative to non-mountain products.
- A premium was only found in the case of cheese and only for Austria, France (though favouring non-mountain products), Norway and Slovenia
  - In Austria the premium was 1.125 €/Kg
  - In Norway, the premium was more substantial and equal to 23.1 €/Kg.(requires further investigation)
  - In Slovenia the premium was 2.5 €/Kg.



## Conclusions - 2

- Whilst the diversity of products creates challenges for the comparison, overall the results indicate that not all mountain products receive a premium, but in some cases the non-mountain products are more expensive.
- Thus, the existence of a premium appears to be very situation specific – depending on the product type, the mountain area (and possibly its association with food), the other value creating attributes embodied in the product, and the existence of substitutes.



Thank you for your attention

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