THE PRICE ON THE ORGANIC PRODUCT MARKET

ATÂNĂSOAIE GEORGE SEBASTIAN
Profesor Liceul Tehnologic „Ioan Bojor” Reghin,
e-mail: atanasos@gmail.com

Summary
The main objective of this paper is to present prices on PAE market (PAE- organic foods market). Prices are analyzed in terms of importance and the main factors that contribute to their establishment (quality of products, distribution channels, certification and eco-labeling system, customer segments and market development stage). The paper shows that are used three strategic options of prices: prices with high rigidity located in a low or high level and fluctuating prices, characterized by variations on short periods of time. Price is a very important barrier to market development but this importance can be mitigated through appropriate communication policies with the market, which are essential especially for markets in early stages of development.

Keywords - ecological food products (organic), price, consumers, market

JEL Classification - M31 : Marketing

1. Introduction

PAE Market represents an industry with a positive development in recent years, and showing great benefits for society, among which stands protecting the environment, maintaining population health, rural areas development, creating export opportunities for developing countries and animal welfare. The evolution of this sector is hindered by the too high prices on markets in early stage of development.

All marketing mix variables are closely connected to each other, which means that decisions relating to prices are closely linked to decisions on product, distribution and promotion. Price is a marketing variable that can be easily modified unlike the other three marketing mix variables, when the marketing conditions require it.

To the pricing of these products should be taken into account the prices of conventional food products.

2. Price on PAE market

Consumers’ willingness to purchase these products depends on factors such as processing, packaging, certification, labeling and consumer knowledge about products. If an individual cannot distinguish between two alternatives, the price differences between organic and conventional foods can induce a state of confusion.

Product attributes together with education, income, occupation and household size influence the attitude and preferences towards products. There are people who would buy these products despite higher prices but do not know the existence of these products on the market.

There are debates in society about the quality of PAE. Thus, it is questioned whether these products are better in terms of quality than conventional food. Consumers are willing to pay the price difference only if they are convinced that these products are better. Also, how they report the price of organic products to conventional food prices is very important, because consumers should be educated not to take into account the cheapest variant of conventional food as the basis of comparison but to analyze the organic product compared with the conventional food but of a better quality and a higher price than the cheapest option. This price difference can be seen as an investment in human health. Price differences ranges depending on skills as manager of the farmer, farm size, conversion stage to organic farming and farming system practiced on farm land [3].

There are countries where conventional foods are cheaper than in other countries (eg Spain), which makes the price differences between conventional and organic food to be higher. Therefore producers are turning to exports towards countries with more developed markets, leading development of the internal market delay [8].

Price is a factor with important consequences on PAE market. Thus, alongside with the limited availability of these products, the price is one of the most significant barriers hindering market development [5]. More than half of consumers consider PAE price as being too high [27]. Other authors have found that price too high is a significant barrier only for 12.5% of people, while a much larger obstacle is the fact that these products...
have a limited availability [14]. Despite the importance of price as a barrier to purchase, there is a more pronounced decrease of this barrier importance, for all categories of consumers [20].

Given that price is a factor hindering market development it is very important when buying for the first time these products, consumers to be fully satisfied so that their satisfaction to lead to new acquisitions [1].

While there is a clear tendency of consumers that take into account price when are buying food, there can be observed an orientation towards high quality food, which include PAE also [6].

An important consequence of higher prices in the PAE market is their incentive character because leads some farmers to enter in the period of conversion to organic farming but there are many challenges that they must overcome. One of the most important challenges refers to the price development of these products, trend which tends to be descending, as in the case of conventional agriculture, which determines the farmers to arrange new channels for distribution to avoid supermarket chains in order to retain a greater portion of profit [25].

Another reason why the evolution of these prices is descending represents the fact that are entering in this sector larger farms, that succeed to significantly reduce costs. Hence the reluctance of small producers on the involvement of large firms in this field [18]. Also, a reduction of subsidies for farmers in the post-conversion period is likely to erode from the positive dynamic of organic farming. In countries where organic milk supply rose due to a wave of animal husbandry farmers who achieved the conversion to organic farming decreased a lot the organic milk price but increased the price of organic grain needed to feed the animals, which determined some of the new organic farmers to give up organic farming. The disordered development of ecological agriculture is adjusted over time as the overall demand for PAE is growing, being large waves of growth followed by a lower recoil. Though with PAE price vary also the number of consumers and consumption intensity, the number of consumers that are less sensitive to price is increasing, which creates serious premises for market development.

Consumers’ education to buy less products off-season and which are produced locally is a way to control prices. The growing experience that organic farmers acquire enables them to offer competitive prices. Involvement of authorities, farmers associations and NGOs is essential for this purpose.

PAE market is growing, but it requires competitive prices and to inform consumers for them to make the difference between an organic product and one obtained in conventional manner [4]. Market development also depends a lot on evolution of the medium and long term of macroeconomic conditions since in the global economic crisis conditions are more people who have difficulties in procuring conventional food and for whom organic food is not a priority.

For PAE market to lose niche market status it is necessary that the difference in price to drop to 20-30%. Between 5-20% of consumers are willing to pay a price difference of 30%, while a difference between 5-10% will attract willingness to pay of 45 - 80% of consumers. Such percentages vary depending on the consumer incomes. Regarding the dynamic of the difference in price that consumers are willing to pay it can be observed an increase of 5-6% in 1999 to 25.1% in 2007, with faster progress since 2003 [9].

Consumers cannot distinguish between conventional and organic products and retailers should implement appropriate strategies for information. Consumers must have confidence in organic labeling systems, in order to differentiate products [26].

Elasticity of demand for organic foods based on price is much higher than for conventional food [28], which means that the efforts of market participants to lower prices will lead to considerable increase in demand. On the other hand, the decrease in prices or their sudden drop will make organic farming less desirable for farmers, undermining the uniqueness of this domain. Another situation that will increase future demand for PAE is to increase revenue.

PAE price is perceived as elitist one, and products are perceived to taste better but not particularly showy. Some consumers perceive products aspect as more important than their prices [9]. For consumers who prefer to buy from supermarkets, products acceptance is conditioned on their appearance [24], unlike consumers who prefer specialized organic shops that accept more easily products with disabilities regarding their appearance.

Price differences between organic and conventional foods vary from country to country, depending on weather conditions, subsidies granted, the degree of market development and product specificity. In general, if eggs and fruits case distinguishes higher price differences that do not represent insurmountable obstacles if effective marketing policies are implemented.

PAE quality determines the practicing of a certain price level. Thus, for products with a high quality level are practiced higher prices, unlike PAE for which are no special requirements on quality.
3. Strategic variants of prices

In the early phase of the PAE life cycle the price and promotion are two variables of the marketing mix more important than the product and distribution. In the organic food sector there are several pricing strategies based on price rigidity.

A premium pricing strategy represents the establishment of prices with low rigidity, which means alternating some price reductions with regular prices. It is very important that the discounts to not be on extended periods of time so that consumers’ confidence in those products to don’t be lose.

A second option for prices is the use of some low prices, unchanged for long periods of time, especially by food retailers and PAE marketed under the retailers’ brand.

A third strategy of prices refers to the use of high prices for products for which demand is less influenced by price. Such high prices have a high stiffness as they remain relatively unchanged for long periods of time and are used mostly by specialized retailers [12].

All these pricing strategic variants must be accompanied by proper communication through which to highlight the main advantages that customers will have. (better quality, health and environmental protection) to maximize the chances of purchase.

4. Price and distribution channels

PAE prices depend on the chosen distribution channels. In addition to higher prices that consumers have to pay, they also bear the costs related to search activities of these products because they cannot be easily found, and this causes that some of relative non consumers to don’t make the step toward purchase.

Marketing through direct sale by farmers, through CSA systems (Community Supported Agriculture) peasant markets, sales from farms, leads to consumption increase and increase of farmers’ profits. It is an appropriate distribution method especially for markets in early stage of development but also for the developed markets, for those segments of consumers for whom ethical values are very important in choosing food products that are going to be purchased. It is developing a relationship of trust between consumer and farmer, relationship that can be strengthened by organizing farm visits. There are CSA type systems where consumers pay part of the price in advance before farmers to start work on the farm, which induces a feeling of safety on the sale of products. Use of the Internet is proving to be successful for organic farmers because there don’t need to invest in retail space, which leads to lower costs.

Sequential harvesting by small farmers creates the opportunity to provide access to better prices because they do not carry significant costs for the storage, losses due to organoleptic changes of products during storage are small and it can be used more effectively the workforce of farmer’s family [13].

There are problems in terms of marketing knowledge of organic farmers, but these deficiencies can be remedied by involving the authorities, NGOs and other actors in the market so that organic farmers to acquire the necessary knowledge for marketing strategies implementation in order to enable to sell directly to consumers, which would ensure them a better price.

Distribution through specialized organic shops and organic restaurants requires practice of higher prices than in supermarkets, but which reward better the farmers’ job. Availability of specialized organic shops consumers to pay extra for these products increases as it increases the percentage of organic origin ingredients in the finished product [2].

Prices of organic food distributed through catering companies are large because catering units use processed or cooked food to avoid the obligation to set up a special room for the preparation of fresh raw materials, and PAE are not provided in the cooked state because there is the widespread opinion that these products must be offered fresh [22].

Processors offer farmers who have less bargaining power very low prices, being problems by farmers on their ability to comply with the requirements of quality, quantity and time of delivery. At first processors are present in small number on the market because there are very few farmers who can meet the requirements of processors.

Also, the increasing involvement of hypermarkets and the processing industry development lead to prices decrease [16]. The distribution of these products in supermarkets requires good organization for the delivery of high quality products. Though, in general, prices of food products delivered in supermarkets are smaller than other distribution systems, there are also ecological foods as meat, for which prices are higher in supermarkets with 64% than the direct means of distribution [18].

There is reluctances from organic farmers to work with supermarkets because supermarkets have high bargaining power, offer very low prices, have high demands on quality, quantity and delivery terms and high trade markup for these products. PAE sometimes very low prices in supermarkets are challenged by actors in the
field as it affects the integrity and spirit of organic farming. Despite the controversial role that these great shops have, it is certain that they contribute to market development and the possible adverse effects they cause may be offset by better education of farmers with lower production capacity so that they also get with their products to customers. There are some opinions that low prices in supermarkets are not in the interests of customers because they are compensated by lower quality services.

5. Price and customer segments

Customer segments which they are intended PAE put their considerable footprint on practiced prices. There are two categories of consumers who show a higher willingness to pay higher prices, elderly consumers with incomes above average, interested in health and environmental activists [16]. There is a group of ordinary consumers who regularly buy these products and are less sensitive to the price of these products because they give priority to the advantages they have when buying and consuming these products. Within this category of consumers there is a sub-category that prefers to buy locally produced food products to support local agriculture and so that will no longer need to transport food on long distances between producers and consumers [11]. For this sub-category it is necessary a deep understanding of the perceptions and attitudes in order to implement effective marketing strategies.

There are consumers who only seem to be interested in environmental issues, which are not willing to integrate in the purchasing behavior and consumption of food the ideas on environmental protection [6]. Moreover, although 49% of consumers were concerned about the level of pesticide, and 46% were concerned with the high content of preservatives and additives in their food, only 26% of them have changed their consumer and purchase behavior regarding PAE, because this change involves costs in terms of money and time [7]. Some consumers declare their willingness to pay more for PAE but this availability is only in words, because in reality, they want to pay a price difference less than is on the market, especially for products such as organic meat. There are exceptions to this situation, for products such as organic milk, for which consumers act not only in words but also in reality and pay the difference of price from the market [19].

The price is a more important barrier for consumers of "light" type, which consume very little PAE, although they realize the special nature of these products. Consumers of "heavy" type are the least sensitive to the price of these products, for them are excelling [20].

'Ideological' consumers for which PAE consumption is a philosophy of life, have a critical attitude towards genetically modified foods and the corporations that produce food, are more willing to pay a higher price for these products, unlike pragmatic consumers, for which the consumption of these products does not have a special symbolic meaning [21].

In recent years the notion of ethical consumerism, which requires larger and more stable prices for farmers in developing countries, reducing greenhouse gas emissions, protection of tropical forests, prevention of child labor, animal welfare, preservation of traditions, integration of people with disabilities and biodiversity conservation. Despite awareness of these ideas, rarely ethical values are communicated to consumers, being preferred communications based on pragmatic reasons of buying (the sanogenetic pronounced character of PAE, better taste), resulting the remaining in latent state of a demand part for such products. The most important ethical values that must be communicated to the consumers and for which consumers are willing to pay extra are “animal welfare” and "regional production" [29]. Such ethical values can be used for a more effective differentiation of food products on the market, which may lead to higher market shares.

Purchase selfish reasons are more predictive in terms of buying behavior in comparison with altruistic motives but cause a lower availability of consumers to pay higher prices for organic food. Also, family incomes are incentives for willingness to pay extra just to a certain step, beyond which high incomes determine the decreases of PAE consumption.

Consumers who are very concerned about their health are more willing to pay extra for an organic food that incorporates more than 95% of the organic ingredients, and less willing to pay for a product that has less than 95% of organic ingredients. The existence of children in family determines an increase of the consumers’ willingness to pay more for these products that have between 70-95% of organic ingredients [2].

An effective policy of prices in this market can only be achieved by determining the exact customers segments which will be assign these products and the reasons for buying. In UK the most important reason of acquisition is the quality, followed by health and environmental concerns [10].

6. Price and market development stage

Stage of market development affects the price level to a great extent. Thus on the markets in the early stages of development are practiced high prices for several reasons. There is a novelty element that generates
higher prices, but at the same time, there are higher logistical and production costs. That part of production costs which is due to specific production activity in organic farming will largely remain but the part of the price which is formed due to the novelty of the products will decrease more and more.

Farmers are not associated, do not have the necessary experience to decrease costs, there are leaks especially in the first years of activity and transport costs are high as the quantities transported are small. Some farmers prefer to use unreasonably high prices, leading to erosion of a part from image leverage of organic farming, especially considering that these unreasonably high prices are linked to a lack of consumer education campaigns.

The situation changes dramatically in developed markets, where farmers have growing experience which transposes into lower production and distribution costs, and consequently, PAE prices will be lower.

Also, on emerging markets, price fluctuations are large from one manufacturer to another. There is a big difference between producers price and the price consumers pay (the difference is up to three to four times), being big problems regarding distribution of such products [26]. Regarding processed food products, their prices are big on undeveloped markets as demand for raw materials is very low and there are very few processors on the market, which leads farmers to export raw materials at prices less favorable and finished goods return to the country at great prices.

On less developed markets, potential customers are available to pay in addition towards a food product obtained in conventional manner a sum much lower than for consumers in developed markets, fact which can be explained by differences in income, awareness and availability of products [23]. If supply increases faster than demand by entering into the converting program of many farmers or by significant increase in production achieved by farmers who have completed the conversion period, the price differences between organic and conventional will decrease and sector profitability will lessen. Organic milk price has dropped so much in Denmark that almost reached the level of price of milk produced in conventional manner.

One way to offset the prices decline of these products is the creation of some brands that are associated with moral values. It requires substantial investments to create organic brands, but this problem can be resolved if farmers associate and appeal to marketing specialists.

The reasons why farmers have adopted organic farming have an impact on prices. There is a wide range of motivations for entering into the conversion program towards organic farming: organic, ethical, financial, political and personal motivations. Farmers for which prevail financial motivations tend to set prices much higher than the costs, than farmers for which prevail altruistic motivations and who set prices justified by costs [18]. For a period these unjustified prices have their place in market, but as the market matures and loses it niche status will need to be restored at lower levels, but still higher than the prices in supermarkets.

7. Prices, certification and eco-labeling systems

Certification costs are also an important factor in determining PAE market prices. There are many farmers who would like to enter into the period of conversion towards organic farming but do not have the resources to pay the costs of certification, if there will be problems on production marketing during conversion period. Alternatively, for prices reduction, some farmers prefer to produce PAE without certification, being a sense of trust between farmers and consumers [17].

Although the usefulness of certification as an organic producer cannot be questioned, both consumers and producers and distributors have hesitations regarding assumption of a part or all of the costs of certification. Each party would like others to give up some of their profits in order to support a larger share of the certification costs. Moreover, government involvement in subsidizing all or part of the certification costs would lead to lower prices, but it takes lobby from the actors of this sector, but it involves primarily them to be organized.

Because the organic brand makes a clear distinction between an organic product quality and quality of a product obtained in conventional manner, it is possible to obtain better prices for PAE. Lack of confidence in the marking system lowers consumers’ willingness to pay in addition to these products. There is skepticism about the veracity of the organic nature of these products, suspicions which are partly determined by cases of incorrect labeling or differences of organic certification systems [3]. Hence results again an obvious need to conduct effective communication campaigns, so that consumers develop trust in these products. The labeling system is very important, especially in case of processed organic products in order to increase consumers' willingness to pay a higher price for these products. In the European Union under Regulation 834/2007 is allowed to use Eco-label for processed products that have at least 95% organic ingredients and contamination limit with ingredients from genetically modified products has been raised from 0.1% to 0.9%. There are labeling and certification systems more restrictive, such as the Demeter system, which was formed by the association of organic farmers AGÖL (Arbeitsgemeinschaft ökologischer Landbau) in 1988 and is now widespread in many countries.

Price differences will decrease as consumers will be more informed about the specifics of organic food products and therefore the traders expenses to inform consumers will decrease [15].
8. Conclusions

Price remains an important barrier to market development, but its importance can be reduced by effective information campaigns so that consumers understand why they have to pay a higher price. There are consumers segments for which information campaigns focused on ethical consumption will be very effective, but also segments prevailing purchase selfish reasons, pragmatic and which are less sensitive to such information and who will prefer conventional or organic foods with low prices acquired mainly in supermarkets. It is very important for a good development of the market to satisfy the requirements of all consumers’ categories, being production and distribution solutions that will bring PAE at desired locations and at the prices desired by consumers. Not all categories of consumers are very sensitive to these products prices, but if it is desired so that lower income consumers can purchase these products, it is desirable for prices to fall.

Low prices in supermarkets do not enter in opposition to the higher prices charged by direct distribution channels as these channels are intended for different categories of consumers who have very different buying habits and consumption.

It puts more emphasis on problem that in the conventional food costs to be reflected also the environmental costs, which make organic food prices, become more competitive.

PAE prices levels should be at balanced levels, the extremes are not desirable because very low prices would not be incentive to farmers, and high prices would lead to discredit the organic farming. It is also desirable to use temporary price reduction to attract consumers, but those cuts must be on short terms in order to do not affect the brand image.

Considering the economic context also - financially very difficult through which are going most countries, the PAE price is a concept that acquires meanings more important regarding formulation of some marketing strategies aimed at developing markets. Importance of price as barrier falls increasingly as consumers perceive the value of PAE. For an overcoming of niche market status is needed implementation of effective communication policies, so that consumers become more informed about these products and to give less importance to price compared to product quality, health and environment.

A strong development of the market of these products can only be made only in terms of production technology improvement and marketing policies optimization.

9. Bibliography