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ORGANIC FOOD MARKETING: PANACEA OR PROBLEM?

NON-TECHNICAL SUMMARY: The market for organic foods appears to have been facilitated by the introduction of the National Organic Program (NOP). Opportunities to deliver value added segregated crops abound. Food processors are responding to demand for multi-ingredient foods with organic content. Yet the adoption of certified organic practices remains low in many regions and crop/livestock systems. Given concerns over consistent supplies, food processors, food service operations and retailers appear willing to turn to imported ingredients and food products leading to a ten-fold international trade deficit for organic products. This project will evaluate the evolving market for organic foods, considering aspects of consumer demand, market intelligence, marketing strategies and international trade. We hope to further facilitate organic markets by better understanding the relevant market and trade dimensions.

OBJECTIVES: Goals The NOP is having a pronounced impact on the market for multiple-ingredient organic foods. The supply chains for such products are complex. Agribusinesses active in, or considering entry into, these chains require precise market intelligence and a better understanding of the market and international trade impacts of the NOP. These issues are the focus of this project. However, these issues are not unique to organic food markets. Many other quality characteristics such as origin, scale of agribusiness, functional characteristics, etc. present similar market and trade issues. Our intent in this project is to use the organic market as one illustration of an increasingly common phenomenon within U.S. and international food markets - the development of public and private quality standards. Objectives 1. Evaluate consumer motivation and willingness to pay for multiple-ingredient organic foods 2. Determine the relative organic market orientation of certification agents, food processors, food service operations and retailers 3. Track the use of organic, nutrition and other quality messages on food product labels 4. Describe the level of organic standard rapprochement Expected Project Output Deliverables from the project will include: a student dissertation, academic presentations, journal articles, outreach talks and publications, lay/industry reports, and the development of a comprehensive web site to distribute research findings to farmers, agribusinesses, policy makers and trade officials. Output will assess: 1. Consumer motivation and behavioral drivers influencing the purchase of organic foods 2. A documentation of food processor, food service operation, retailer and certification agent market orientation 3. A cross-country comparison of the evolving use of organic, nutrition and other product positioning claims on food labels 4. A detailed comparison of the approval process for organic ingredients contained within standards, characterizing the level(s) of rapprochement Insights gained from this research will be especially valuable in evaluating the market and trade implications of organic standard reform, in developing marketing strategies, forming optimal food quality management strategies and policies, and providing a better understanding of the role of market

intelligence in the operation of organic supply chains. Tool development and measure validation will strengthen future research in this area. The research should also provide a model for other studies of food quality standards, including local, natural, functional, etc.

APPROACH: 1. Evaluate consumer motivation and willingness to pay for multiple-ingredient organic foods Consumer demand for multiple-ingredient organic foods will be assessed using economic experiments and Conjoint Analysis (CA). In year 1, consumers will be randomly identified and intercepted during grocery store visits. Posed in a face-to-face interview format, they will complete an experiment and make choices between two multi-ingredient food products that differ in a number of attributes identified on the product label. Attributes that describe the level of organic content (zero, less than 70%, 70-94%, 95-99% and 100%); location of production of the food and key ingredients (nearby town, state, U.S., international, or unidentified); type of firm producing the food product (small firm, store brand, national brand); and the presence or absence of product nutritional claims. Product price also will be varied. Each respondent will evaluate 7-10 product pairs. 2. Determine the relative organic market orientation of certification agents, food processors, food service operations and retailers A mail survey will be administered to samples of organic food processors, food service operations and retailers (year 2). Based on industry data, and the tracking of innovative organic foods a sampling frame will be designed to stratify by business type, national and regional firms, chain/independent, product breadth, level of innovation of food products, etc. We will select a total of 800 U.S.-based NOP-certified agribusinesses. A 4-phase mailing protocol will be used (Dillman, 2007). The survey will explore organic market orientation scales investigating who collects, adds value to, and distributes market intelligence and trend information. 3. Track the use of organic, nutrition and other quality messages on food product labels A new products will be used to document current product offerings in a range of categories (see table 2) that vary in single- and multiple-ingredient format and level of processing, and in the degree of self-sufficiency of ingredients for the U.S. and other nations. A common finding in recent consumer surveys suggests that nutrition is a key motivation in purchasing organic foods (72% of adopters believed organic foods have more nutrients in the 2005 Whole Foods survey, compared to 31.5% of those who don't consume organic foods). A database with nutritional information at a product level will permit detailed comparisons to be prepared. 4. Describe the level of organic standard rapprochement The research team will track and compare evolutions in the NOP, other nations organic standards (e.g., Canada), and international organizations standardization efforts (IFOAM and Codex). This research will involve Internet searches of government documents, dialogues with the relevant certification agencies and companies. A focus on commercial availability and the review procedures of the National Organic Standards Board will promote a dynamic, timely and rich analysis within which comparisons of permitted ingredients can be made.

PROGRESS: 2011/01 TO 2011/12

OUTPUTS: Various phases of the project were advanced during 2011, including: Continued tracking of innovation data for multiple-ingredient certified organic foods; on-going outreach and interactions with stakeholders; development and implementation of a national survey of consumers; and preparation of manuscripts. A novel contribution of this project is the real-time tracking of certified organic food and beverage innovations using a subscription-based database. We continue to monitor key trends in the diffusion of organic marketing strategies (including price, product reformulation, brand/firm interactions and additional label messages - e.g., the use of local claims). **PARTICIPANTS:** Not relevant to this project. **TARGET AUDIENCES:** This research explores the impact of expanded organic markets for both farmers and consumers. Understanding the marketplace for organic products provides farmers with information that will be useful to help evaluate new and emerging enterprise and marketing options. It can be especially helpful for small and mid-size farms and food processors because these smaller units can be more competitive in this market area due to the ability to differentiate their products and receive higher prices than for non-differentiated agricultural commodities and food products. **PROJECT MODIFICATIONS:** Nothing significant to report during this reporting period.

IMPACT: 2011/01 TO 2011/12

The National Organic Program (NOP) is a combined public and private quality assurance certification and audit system. Many consumers value organic products not just because they perceive the products to be healthier, but also because they perceive them to be more environmentally friendly, and more supportive of small scale agriculture and local rural communities. To be organic under the NOP, the crop must come from

a farm or other operation that is certified by a state or private agency accredited by USDA. The NOP holds implications for organic supply chains. Yet, much of U.S. organic food is imported, and consumers must be willing to trust the organic certification system of our trading partners if they are to fully value organic products. Despite improvements in trade relations developed under regional or multilateral agreements such as NAFTA and the WTO, cooperation amongst national-level regulatory agencies in designing food standards remains rare. Our research will help to understand the certification and audit systems for both domestic and international production.

PUBLICATIONS (not previously reported): 2011/01 TO 2011/12

1. Hu, Wuyang, Marvin T. Batte, Tim Woods, and Stan Ernst. "Consumer preferences for local production and other value-added label claims for a processed food product." *European Review of Agricultural Economics* 2011; doi: 10.1093/erae/jbr039.
2. Stanton, John L., Neal H. Hooker and Salnikova Ekaterina. 2011. A Comparison of Process and Ingredient Claims on US and EU Food. *Romanian Distribution Committee Magazine*. 3(3): pp 8-11
3. Shanahan, Christopher J., Neal H., Hooker and Tekle Atalay. 2011. Pricing Food Quality Attributes: Dissecting Food Products. HSB Working Paper. 11-4. Available online: <http://www.sju.edu/academics/hsb/resources/workingpapers/> April. 25 pp
4. DiMarcello, Nicholas and Neal H. Hooker. 2011. US Organic Food and Beverage Innovations: Trends 2009-2010. HSB Working Paper. 11-1. Available online: <http://www.sju.edu/academics/hsb/resources/workingpapers/> April. 15 pp

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