

Average shoppers are willing to pay a premium for locally produced food

June 3 2008

New research suggests that the average supermarket shopper is willing to pay a premium price for locally produced foods, providing some farmers an attractive option to enter a niche market that could boost their revenues.

The study also showed that shoppers at farm markets are willing to pay almost twice as much extra as retail grocery shoppers for the same locally produced foods. Both kinds of shoppers also will pay more for guaranteed fresh produce and tend to favor buying food produced by small farms over what they perceive as corporate operations, according to the study.

"Our conclusion is that if a farmer wants to consider producing food for local distribution and marketing it locally, there are people who are willing to pay more for it," said Marvin Batte, a co-author of the study and the Fred N. VanBuren professor of agricultural, environmental and development economics at Ohio State University. "We are not saying that we should be producing all of our foods locally, just that this may be a viable, profitable activity for farmers."

And what's good for farmers also benefits consumers in this case, said Batte, director of the research project.

"This is an indication that certain groups out there value locally produced food and if farmers deliver that, it makes these consumers happier, so it's good for them, too," he said.

Most of the survey was conducted in late 2005. Batte said the findings – and his contention that not all food should be produced locally – still apply today, even in the face of rising fuel and food prices. Many food crops that thrive in specific types of climates cannot be efficiently and affordably produced for local distribution elsewhere. And, he said, those who buy local food to support nearby growers likely would be even more motivated to lend that support in a flagging economy.

The study is published in the May issue of the *American Journal of Agricultural Economics*.

The researchers surveyed shoppers at 17 Midwestern locations, including seven retail grocery stores, six on-site farm markets and four farmers' markets hosting sellers from multiple farms. The researchers used data from 477 surveys.

The survey presented shoppers with two product options. Both were baskets of strawberries, but they were presented under 80 combinations of price, farm location and farm type. Some scenarios also included a freshness guarantee. After presenting the options, the researchers asked shoppers which basket of strawberries they would buy.

"Statistically, we sorted out what explains each person choosing one basket over the other. We were able to determine how important price was, how important where the strawberries were produced was and whether the freshness guarantee was a factor," Batte said. "Basically what made the biggest difference was local production."

In the study, local production meant the berries were grown within Ohio.

The average retail shopper was willing to pay 48 cents more for strawberries produced locally, and shoppers at farm markets were willing to pay 92 cents extra. With the base price for a quart of berries

set at \$3, farm market shoppers were willing to pay almost a third more for the local produce.

The freshness guarantee also held meaning for shoppers. If shoppers were promised fresh produce that was recently harvested, farm market shoppers were willing to pay 73 cents extra and retail shoppers indicated they would pay 54 cents more.

The researchers also tried to test shopper interest in supporting small vs. large farms by naming one fictional berry producer "Fred's" and the other "Berries Inc." Shoppers in grocery stores were willing to pay 17 cents extra for a quart of berries from Fred's, and farm market shoppers were willing to pay 42 cents more for the perceived small-farm produce.

"We suspected people who go to farmers' markets go there for a reason, because they are willing to pay more, hunt it down and travel there. But we also found that the typical shopper in a retail grocery store is willing to pay more, as well. And in fact, we're seeing that grocery stores are figuring this out by prominently labeling locally produced food," Batte said. "So we were trying to see if that group of people who shop at retail groceries are willing to pay X amount, and determine what that amount is."

Though the study was conducted in Ohio, Batte said the findings could easily extend to the rest of the country. However, the definition of local would be likely to differ in California, a large state with multiple growing regions, and New England, where several small states are clustered closely together.

"The shoppers are expected to be there in each kind of shopping venue nationally, but 'local' would need to be defined more precisely for various regions," Batte said.

Though not all farmers would be able to set up a niche operation to grow and sell their produce to nearby consumers, Batte said some smaller farm owners could consider adding hand-harvested local production with the expectation that they can charge a premium for that produce.

"Farmers could actually be a little less efficient on the production side and still be more profitable on the revenue side if they can capture that premium price," he said.

Source: Ohio State University

Citation: Average shoppers are willing to pay a premium for locally produced food (2008, June 3) retrieved 27 April 2024 from

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