

For the Record

Straight talk about antibiotic use in food animal production presented by ALPHARMA Inc., Animal Health

YOU COULD BE PAYING A HIGH PRICE TO EARN THE 'PREMIUM' ON FOODS LABELED AS 'RAISED WITHOUT'

You know the pitch: Labeling foods based on their production methods—more specifically, what doesn't go into their production—gives health-conscious consumers a broader range of product choice, even as it offers retailers added high-margin product lines. It's the best of both worlds.

In theory.

In the real world, though, the added margin of "raised without," antibiotic-free, hormone-free and organic niche products may not begin to cover the demand hit they're causing to the remainder of staples in your dairy, produce and meat sections. A recent study suggests they may actually be reducing overall profitability by turning shoppers away from the conventionally raised products next to them – even the whole department.

STIGMATIZING ENTIRE CATEGORIES?

A study reported in November's *American Journal of Agricultural Economics* tested 148 grad students and staff at New York's Cornell University, asking them first to taste test and then to bid the price they'd be willing to pay for a quart of three kinds of milk: conventionally produced, rBST-free and organic.

Traditional market research asking consumers their willingness to pay for traits like hormone-free and antibiotic-free tend to ignore the demand affects of competing conventional products, said the authors. So to try to assess that confounding factor, they varied the order



in which they presented the different milk types to the participants. They also gave them handouts containing nutrition information for each flight of milk only as it was offered. They were careful to ensure the nutrition information was identical for conventional, rBST-free and organic milk, explaining the products differed only by production process.

When the consumers' stated willingness to pay for each milk type was viewed without regard to order, the result mirrored what other studies have found: The average willingness to pay was \$1.03 for skim milk produced conventionally, \$1.06 for skim milk produced

without rBST, and \$1.40 for skim milk produced organically—a typical marketplace premium. However, when the research controlled for the order in which the milks were presented, the results were sobering.

CUTTING YOUR PRICE BY HALF?

Presenting conventionally produced milk as the last alternative—in effect as the fall-back standard fare once the "premium" raised-without products were sampled—led the study participants to drastically discount their willingness to pay for that conventional milk. The bid price for conventional milk fell from \$1.28 when presented first to only 61¢ when presented last—a cut of more than 50 percent. The study authors believe this mirrors the grocery: Where consumers are aware of all product choices, they discount values within the choice range.

And it gets worse.

When the researchers averaged the overall willingness to pay for all milk types, the average price was \$1.22 for participants who sampled conventional milk first. For those given the conventional milk last, though, the overall bid price for all milk types was only 90¢—a statistically significant decrease of more than 26 percent for the whole category.

"...the introduction of milk labeled as being rBST-free or organic could have a much greater influence than simply reducing [willingness to pay] for conventional milk," they said. "The availability of rBST-free and organic milk could reduce the demand for all types of milk."

Whether the same phenomenon can be expected to occur with other "raised without" products like antibiotic-free isn't clear, since the study did not test specifically for that. However, it may be a safe assumption.

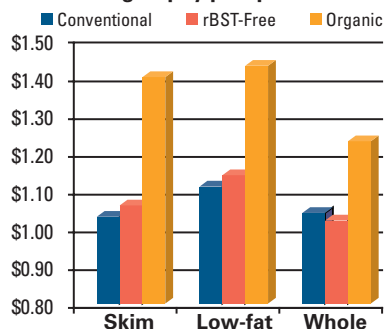
"The larger stigma effect of organic compared with rBST-free milk on conventional milk is intuitive, since organic milk is free of more than rBST, having additional claims of being pesticide and antibiotic free," they wrote.

Source: Kanter C, Messer KD, Kaiser HM. Does Production Labeling Stigmatize Conventional Milk? *Amer J Agr Econ*. 2009 Nov;91(4):1097-1109.

The 'raised without' premium

Subjects given the choice between r-BST-free, organic and conventional milk said they would pay a premium for "raised-without" products.

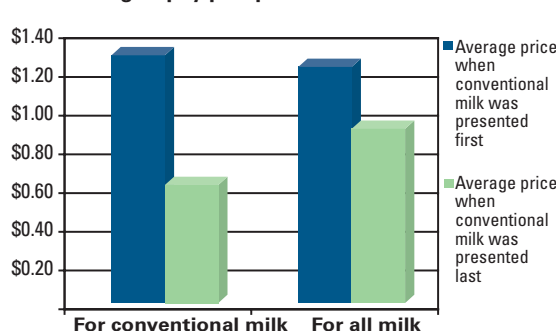
Price willing to pay per quart



The 'raised without' penalty

But when presented with the "premium" milk choices before conventional milk, they not only reduced their willingness to pay for conventional milk by more than half, they reduced demand for all milk by one-fourth.

Price willing to pay per quart



DO CONSUMERS REALLY WANT TO BE TOLD, 'EAT IT; IT'S GOOD FOR YOU?'

Notwithstanding the legal restrictions on selling "raised without" foods like antibiotic-free, hormone-free and organic meat, milk and eggs using claims they're healthier for you (they're not), consumer studies continue to demonstrate that's typically the reason shoppers pay their higher markup. Yet, consumer distaste for such "medicalization" of food may be another reason the growth in popularity of such products is beginning to cool, according to one trend watcher.

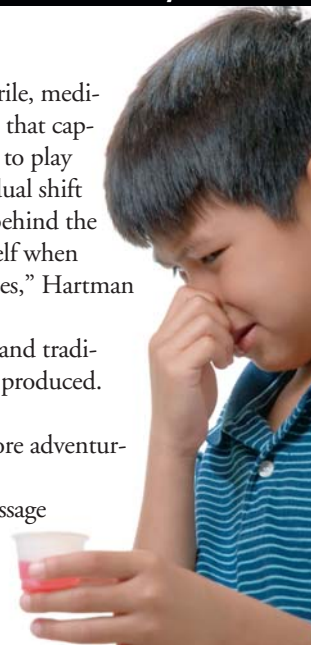
"Consumers are gradually transitioning away from ascetic, medicalized eating styles, 'quick fix' diets or supplements, and so-called 'better for you' packaged foods," writes Belleville, Wash., marketing research firm **Hartman Group**.

Although the consumer packaged goods industry will continue to present them with such foods, Hartman believes, the unanswered question is whether consumers will accept them. The firm's research suggests they increasingly won't. "Chief among the more general trends in functional foods is the consumer's tendency to eschew overly medicalized functional foods in favor of those offering more playful, aspirational benefits."

Rather than those foods offering a litany of sterile, medicalized ingredient additions (or omissions), foods that capture an aura of health through authenticity stand to play better with consumers. "We are witnessing a gradual shift such that the communities, families and people behind the food are increasingly as important as the food itself when it comes to healthy, high-quality eating experiences," Hartman believes. What will that include?

- Products that tell stories of their place, people and traditions, giving the impression of being less mass produced.
- Fewer and higher-quality ingredients.
- Products and packaging that communicate more adventurous flavor profiles and higher quality.

If antibiotic-free labeling communicates the message a product is a mechanized, assembled package of health traits, rather than a holistically crafted food, it risks driving consumers away.



INSIDE THIS ISSUE

Capturing a price premium on a small niche of "raised without" products could be costing you much more in reduced demand for conventional products, a new study suggests

- Encouraging consumers to view conventionally produced milk as the low-value alternative could be driving down willingness to pay for the entire category, the study showed.

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FAQs about the green benefits of 'raised without antibiotics' foods

Q Even if "raised without antibiotics" products don't completely sway consumers with a health message, won't they sell based on their "sustainability" benefit?

A It's doubtful, at least in the long term. While it's true consumers continue to believe green, sustainable and all natural products are synonymous, both their understanding of what the terms mean and their belief in their value remains unclear.

- Reducing the use of technology like antibiotics to improve efficiency does not preserve resources. A [recent Journal of Animal Science study](#), for instance, predicts ending the use of

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antibiotics and hormones in U.S. beef alone would require an additional 1.6 million more cows and 34.8 million acres of land just to satisfy current beef demand.

- Natural meat claims like "raised outdoors," "fed natural feed" and "family farm raised" don't signal quality well and often confuse consumers, leading to distrust, European research shows.
- **New research** by Tennessee's Shelton Group finds while 59 percent of self-identified "green" consumers identify the economy as their top concern, only 8 percent consider the environment first before purchasing.

For the Record is a regular publication designed to present facts to balance today's debate over the use of safe, effective, economical methods farmers use to produce your milk, meat and eggs.

Read past issues or link to more information on this issue at www.AntibioticTruths.com