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A Case Study of Price Premiums for Local Foods in Tompkins County, New York

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The demand for locally-produced food is growing rapidly in the United States in recent years. The availability of local food is increasing in various marketing channels, including farmers markets, national and regional supermarket chains, and foodservice operators, among others. A critical issue for members of supply chains producing and distributing local foods is: does the attribute local in food products command price premiums in the marketplace?

Many researchers have addressed this question. Most of these studies are based on surveys and controlled marketing experiments that attempt to tease out consumer's willingness to pay for the attribute 'local' in food products. The majority of these studies show that consumers are willing to buy locally produced foods at higher prices. For example, in Colorado States, the attribute 'Colorado Grown' carried a higher price premium than attributes such as 'organic' and 'GMO-free.' Similarly, consumers in Ohio are willing to pay a price premium of 27 percent for locally-produced strawberries in the supermarket and direct market outlets. In South Carolinian, a survey found price premiums of 23 percent and 27.5 percent for local animal products and local produce relative to their nonlocal counterparts, respectively.

Little research focuses on actual retail shelf prices to examine price premiums for locally-grown foods. An exception is Park and Gómez (2011) who used prices collected from thirty retail outlets in five U.S metropolitan areas for five commodities. The results indicate that price premiums exist for local fluid milk, blueberries, and spring mix; but not for local apples and ground beef. In this this study, we follow the approach by Park and Gómez to examine the existence of price premiums for local foods in the Tompkins County metropolitan area in New York State.

We collected primary data on bi-weekly prices, varieties, attributes (e.g. local, organic) and package size of nine products, including five fresh products (apples, sweet corn, strawberries, tomatoes, and potatoes) and four semi-processed/processed foods (whole chickens, eggs, two percent fluid milk, and whole wheat bread). We collected these data from six distinct

retail outlets, including two farmers markets, two natural food stores, and two supermarket chains. In our study, a local product is produced, processed, and transported within a 30-mile radius of Ithaca.

We present results in table 1. Our study suggests that the attribute ‘local’ enjoys price premiums in two out of five fresh products (strawberries and potatoes) and in three out of four processed foods (whole chickens, eggs, and two percent milk). The price premiums for local fresh produce are not significantly higher than the local price premiums for processed foods. In addition, as expected, all nine products exhibit positive price premiums for the attribute ‘organic’, except for whole wheat bread. The attribute ‘local’ has higher price premiums than the attribute ‘organic’ only for strawberries, potatoes, and whole chicken..

Table 1. Summary of Price Premiums for Local and Organic Products

Product	Premium for Local	Premium for Organic
Potatoes (\$/quart)	70.7%	27.7%
Whole Chickens (\$/lb)	129.1%	62.7%
Eggs (\$/dz.)	10.5%	54.2%
Two Percent Milk (\$/0.5 gal.)	46.9%	76.6%
Strawberries (\$/quart)	58.7%	46.0%
Whole Wheat Bread (\$/lb.)	-26.4%	-37.0%
Apples (\$/lb.)	10.8% ^a	74.2%
Sweet Corn (\$/each)	-9.2% ^a	36.5%
Tomatoes (\$/lb.)	6.8% ^a	37.2%

a denotes estimates are not statistically significant.

In general, price premiums calculated in this study, based on actual retail shelf prices, are higher than those reported in willingness-to-pay studies. One has to be careful when interpreting these results, given that price premiums are highly dependent on the economic and demographic characteristics of consumers in the study locale. In particular, the local products were identified with the farm name and labeled with specific farm and production attributes, such as grass-fed, free-range, organic, etc. Many of these other attributes can carry additional premiums. In addition, most Ithaca residents are more educated and have higher incomes in comparison to other metropolitan areas of the same size. Therefore, Ithacans may be willing to pay more to buy local foods than in other locales.

Another aspect is that the value of the attribute ‘local’ depends on the definition of local foods. In our study, a local product has to be produced, processed and distributed within a 30-mile ratio from Ithaca. Alternative definitions of the attribute local (e.g., based on state boundaries, may lead to different price premium estimates.

References

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