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Do Price Premiums Exist for Local Products?

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Demand for locally produced food has increased sharply in recent years, as certain consumer segments seek out local foods to support local farmers and the local economy, or because local foods represent features or production practices that consumers look for in their foods. An important question for those who produce and distribute local food products is: Can I get a price premium for my “local” product?

As researchers, we can safely say, “It depends.” First, let us look at what other people have found. Most studies on price premiums for local foods ask consumers how much they are “willing to pay”. This measures consumer intentions although it does not measure behavior. Eastwood, Brooker, and Orr, 1987, found no local preference except in the case of tomatoes. They postulated that perhaps there were regional or geographic differences in demand for local products and/or a preference for local was an emerging trend.

Various studies since then have found willingness-to-pay a premium for local products, which varies by geography, product, and consumer demographics. For example, consumers in Colorado were willing to pay approximately 9 percent more for local potatoes; Ohio consumers said they were willing to pay for locally produced strawberries in Ohio (on average 27 percent of retail price). A phone survey of South Carolinian consumers found consumer willingness to pay for locally grown products. Respondents indicated willing to pay premiums of 23 percent and 27 percent for animal products and produce respectively. These and some other study findings are listed in Table 1 below.

Table 1. Willingness-to-Pay Price Premiums for Various Local Products

Willingness to Pay studies for Local	% Premium
Colorado potatoes	9%
Ohio strawberries	27
Michigan greens	36
South Carolina produce	27
South Carolina animal products	23
Florida fresh produce	50
Pennsylvania applesauce	31

In our study, prices were collected for five food products (apples, blueberries, 2% fluid milk, ground beef, and spring mix). These price data were hand-collected from thirty retail outlets in five U.S. metropolitan areas. The retail outlets include a variety of formats, including farmers markets, natural food stores and conventional supermarkets. Each study area defined its “locality or region” according to how its consumers might perceive the definition of local in their area.

In addition, for a product to be considered local, its label or marketing materials had to convey information about where, how and by whom it was produced (or some combination of those three) and to have a “farm identity”. For example, we defined store brand milk as being domestically produced in the US but not as being local. Even though in most cases, the milk was produced and processed within the local geography, it did not meet the second criteria, that the label or marketing materials had to convey information about where, how and by whom it was produced and have a farm identity within the local geography.

Our study results indicate that a price premium for local exists for 2% fluid milk, blueberries, spring mix, and ground beef but not for apples (see Table 2). In the case of apples, variety was an important attribute affecting price. Organic labeling commanded a price premium for all five products. Although most price differences are explained by product attributes, such as local, organic, variety (in the case of apples), and packaging, we found many other factors that also significantly affect price, including seasonality; geographic region; and type of retailer.

Table 2. Percent Price Premiums Found for Local and Organic Products

Product	% Premium for Local	% Premium for Organic
2% Milk	16.2%	82.9%
Blueberries	8.7	27.9
Spring Mix	20.8	12.9
Ground Beef	21.1	43.4
Apples	(none)	18.0

In general, price premiums calculated in this study were lower than those reported in willingness-to-pay studies. Consumers may over-estimate their interests in local when presented

with a survey as opposed to making actual purchases. In addition, the price data were collected in 2009 during the recession crisis. Any premiums for local as well for organic may have suffered.

We also suggest that the results for the product attribute 'local' hinge on the definitions of local used in this study and that changes in the definitions of local could alter the results. Definitions of local rely on consumer perceptions on what is local. In addition, consumers may have different perceptions as to what is local according to different products. Fluid milk is costly to transport long distances, and would likely be labeled as local by many existing definitions, yet consumers do not think of milk purchased in the grocery store as a store brand as being a local product. And, in general, milk packaging does not provide any information that would help to identify the milk as being locally produced or processed.

The price premiums observed in these models with our current definition of local may be linked more to perceptions of farm identity, farm size, label information and marketing than to a local geography.

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