Title
What drives the demand for organic food? A Case Study of Kleve, Germany

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Conference Presentation

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Research Question
What are the determinants for the observed demand and willingness to pay for the organic food in Kleve?

Methods
The study is predicated on a systematic literature review and regression (Tobit & OLS) analysis, which is based on primary data collected within the framework of a field research.

Results
The level of net household income, the price, trust in bio-labels, environmental awareness, gender and health status are the central determinants of the demand for organic food.

Abstract
This elaborates on the determinants of demand for organic food in Germany whereby the city of Kleve has been chosen as the case study. The empirical analysis is based on the primary data of 295 structured interviews that have been interviewed at four different grocery stores of the city and online. The study finds that the level of net household income, the price of organic food, trust in bio-labels, environmental awareness, the number of persons in a household, gender and health status have a positive impact on the demand for organic food. Tobit model indicates a strong positive impact of the price perception of organic food on the market demand for organic food. This shows that the benefits of organic food outweigh the additional costs epitomized by greater prices. Hence, the question of premia is of paramount importance. To frame the study conceptually the study complements the analysis of the observed market demand by the assessment of the determinants of the additional premia for organic food using an OLS estimator, because WTP is not identical to current demand, it is rather a maximum realizable demand. Age, climate friendliness, the number of children, and the share of organic food in the households’ total expenditure for food determine the magnitude of the premia for organic food. The households with an already greater share of organic food in their food baskets tend to offer greater premia for organic food.

Summary of the results
According to the descriptive analysis, the average monthly household budget for groceries is just over 700 euros. Around 25-30 % of this is organic food. This means that between 175 and 210 euros are spent on organic food per
month. If you take into account the average household size of the respondents (2.81), then you can say that there are about 3 people per household, which results in a total food basket of 250 euros per person.

As part of this study, an attempt was made to examine the factors that determine the willingness to pay for certified organic food. The city of Kleve was selected as the study location. In addition to the hypothetical willingness to pay, the question of the actual role of organic food in Kleve was also examined. Thus, an attempt was made to examine both the status of the actual development and the prospects for further expansion of the market for organic food.

A systematic literature review on the determinants of demand and willingness to pay for organic food was carried out as part of the study, with this analysis focusing on publications since 2010 due to major changes in the regulation of the organic food market in the EU since 2010. There were changes which had boosted the market to a considerable extent. The literature analysis includes 70 academic sources and revealed the status of research on the determining factors for certified organic food. The literature analysis and in particular the three meta-studies were groundbreaking in understanding the demand for organic food on the one hand, and understanding the different approaches to measuring the willingness to pay for organic food. The analysis showed that net income, price, taste, origin or regionality, trust in the organic seal, consumers' willingness to innovate, species-appropriate animal husbandry, household size, children in the household, gender, state of health, sportiness, and environment awareness are the main determinants of the willingness to pay for the are organic certified foods.

Two estimators were used to answer the research questions on the status of market development and the market development potential. These are Tobit and OLS regressions. Since it makes sense to use the dependent variable for the proportion of organic food in the entire food basket in the context of a regression analysis, it was taken into account that it may be a censored variable or a variable restricted from the right and left. Proportion is measured using a Likert-scaled variable from 1 to 6. With such a constrained dependent variable, using linear regression could be problematic because the coefficients of an OLS linear regression have validity from minus to plus infinity. The use of Tobit regression may make more sense than linear OLS for many reasons. For this reason, the Tobit approach was used to examine the market data collected. The Tobit analysis showed for the city of Kleve that the level of household income, the price of organic food, the origin of the organic food, trust in the organic seal, household size, state of health, and the subjective attitude towards the environment and nature conservation have a statistically significant influence on the market demand for organic food n exhibit. As in most sources, net income, environmental awareness, health awareness, and athleticism also have a positive impact on market demand in the case of Kleve. A very interesting result, which is also important for the course of this study, relates to the price perception of organic food. Despite the expectation that, as with most normal goods, there is a negative relationship between price and quantity demanded, this is not the case for organic food. There is a robust positive correlation between the level of prices and the actual demand for organic food. Although the demand for observable market data has great advantages for the analysis of demand and willingness to pay, I am aware that there is also an opinion in the literature that the concepts of WTP and market demand may differ because WTP tries not only to quantify the actual but above all the maximum market demand. The positive sign of the price also indicates that the market has not yet reached its potential.

Another interesting but unexpected finding relates to the impact of respondents’ gender on willingness to pay, or WTP. Male respondents buy more organic food than women. This finding conflicts with the prevailing view in the literature that women are more inclined to buy organic food. Therefore, based on the questions about the willingness to pay a surcharge for organic food, an attempt was also made to find out how the market could continue to grow, not least through an improved price-performance ratio. The OLS estimator found that the determinants of the premium differ from the drivers of actual demand. The number of children, climate friendliness, and age also include the actual budget for organic food among the determining factors of the surcharge for organic food. This implies that households that already have a large proportion of organic food are more willing to pay even more for organic food. However, the willingness to pay a surcharge decreases with advancing age. A possible reason for this finding could be that older people can no longer afford even more expensive groceries due to higher running costs. However, a conclusive answer to this question requires a more intensive examination of this phenomenon.

The central limitation of the work is that the underlying dataset is not representative and thus does not allow any generalizations.

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