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Willingness to Pay for "Taste of Europe": Geographical Origin Labeling Controversy in China

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Willingness to Pay for "Taste of Europe": Geographical Origin Labeling Controversy in China

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Introduction:

- Emerging markets are increasingly relevant to international producers and marketers.
- Market failures due to asymmetric information are often seen when high-quality products enter into "new markets" as many of the renowned national or regional brands are new to consumers.
- The use of "geographical origin" in emerging markets plays an important role as signals for product quality.

Three levels of geographical origin labels:

Within country—GI; Country –COO (eg, Ireland); Broader regional (eg. EU)

Motivation:

EU Commission launched a 'Tastes of Europe' campaign in China in May 2015. The campaign aims to create awareness of GI products among the Chinese. Yet in order to gain broader consumer recognition, an "umbrella" message, "Taste of Europe", was used to carry a generic geographical origin message to reach consumers (EU Commission, 2015).

Bring the
"Taste of Europe"
to China

Questions:

- For EU policy makers— will generic origin message carry sufficient value to promote member country products?
- For marketers in member countries— what are the advantages and disadvantages to be associated with the European umbrella message, relative to the use of country specific labeling?

Answers to above questions provide insights to EU policy evaluation, and impact exporters' strategic marketing decisions in the emerging markets.

Data:

A survey on consumer perception and willingness-to-pay for geographical origin labeling for imported dairy products was carried out in Beijing, China in 2015 through 307 face-to-face interviews.

"products of EU" v.s. "product of Ireland"

Model:

- Double-bounded CV to elicit consumer WTP (4 scenarios).
- Maximum likelihood function to estimate WTP

Scenario 1: *yes to bid one, no to bid two*

$$\Pr(Y_i^1 = 1, Y_i^2 = 0 | x_i) = \Phi\left(\frac{t^2 - x_i'\beta}{\sigma}\right) - \Phi\left(\frac{t^1 - x_i'\beta}{\sigma}\right)$$

$$WTP_i(x_i, u_i) = x_i'\beta + u_i$$

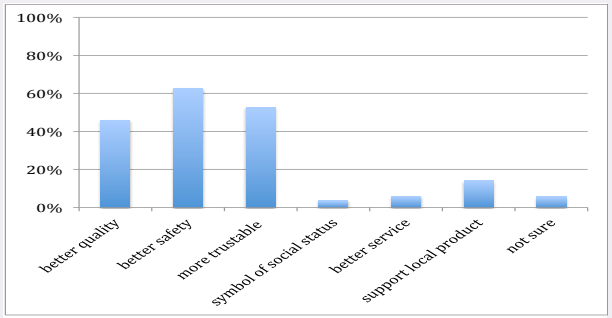

Figure 1: Consumer perception for GI label

Consumer has limited knowledge about Ireland, let along its products…thus the marketing challenge

Table 3. Consumer knowledge and Perceptions about Ireland

Statements about Ireland	True	False	Don't know
1. Ireland is a independent country	**42.4**	26.4	31.3
2. Ireland is part of Unite Kingdom	38.8	**31.9**	29.3
3. With limited land, Ireland relies heavily on agriculture imports	18.2	**33.9**	47.9
4. Ireland exports more than 80% of its agricultural products	**38.8**	9.5	51.8
5. The majority of Ireland's dairy are based on grass-fed production	**54.1**	2.0	44.0
6. Some wellknown world brands of IMF use milk sourced from Ireland	**35.2**	9.5	55.4
7. Ireland is advanced in sustainable agricultural production	**40.7**	4.9	54.4

Results:

Table 4. Regression Results from Double Bounded CV Method (Full sample, N = 307)

	(1)		(2)	
	Product of EU		Product of Ireland	
Parameter	Estimate	t-test	Estimate	t-test
Age	-0.133*	(-2.29)	-0.144*	(-2.56)
Female	0.138	(0.79)	0.199	(1.19)
Income	0.227**	(2.96)	0.256***	(3.44)
Abroad experience	-0.450*	(-2.37)	-0.182	(-1.03)
Consumed before	2.376**	(2.67)	3.085***	(3.59)
Safety perception	0.280*	(2.32)	0.040	(0.36)
Base price 3.5	1.222***	(5.67)	1.219***	(5.91)
Base price 4.5	2.041***	(10.19)	2.020***	(10.50)
GI_service	-0.703	(-1.93)	-0.747*	(-2.13)
GI_don't know	-1.020*	(-2.54)	-0.575	(-1.54)
Online channel	-0.554*	(-2.04)	-0.839**	(-3.20)
Constant	0.813	(0.86)	0.431	(0.47)

WTP estimates:

For a bottle of 250 ml fresh fluid milk, on average the consumers surveyed are willing to pay 4.76 RMB (64 cents) for the milk with "product of EU" label, 4.63 RMB (62 cents) for the milk with "product of Ireland" label.

The weighted average indicated that overall respondents were willing to pay 37% more for Product of EU milk, and 32% more for "product of Ireland" compared to milk without such GI indicator.

There is a 5% additional premium for using "product of EU" label, compared to "product of Ireland" label.

Conclusion

- Using EU label can be beneficial in terms of higher consumer willingness-to-pay for products with lower recognition rate. But the magnitude of premium is limited.
- Due to asymmetric information, consumer will likely perceive products with product of EU label as indication of average or below average quality level within EU. This implies that for products with above average quality within EU countries, using EU labeling rather than country specific label has potential drawback regarding the establishment of product differentiation and brand name.
- Although for practical reasons, the study has to focus on one particular country, the findings hold broader implication for many other countries, products, and marketers facing similar challenges in the emerging