

The potential to use niche marketing to sustain farm businesses and manage the rural environment - a case study

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Abstract

With commodity prices continuing to decrease and the policy constraint that farmers cannot increase incomes by increasing volumes of production, farmers must find alternative ways for maintaining their standard of living. This can be achieved by either niche marketing of agricultural products or by environmental payments, which are either paid by government or the consumer.

This paper will draw on the results of a consumer survey carried out in Less Favoured Areas in Scotland, Germany, France and Italy to assess consumer attitudes of what constitutes quality and the extent to which this provides an opportunity to exploit niche marketing. Accordingly, the opinions of consumers will be compared and contrasted in four Member States of the European Union. The extent to which niche markets provide a means of rewarding farmers through the value of primary agricultural produce for environmental management is discussed.

Introduction

In an era of policy measures designed to control food production and limit agricultural spending, farmers throughout Europe are increasingly being told to look to the market place to add value to their products. Equally, they are increasingly being encouraged to adopt agricultural production methods that are sympathetic to the natural environment in which they operate. These two challenges facing the primary producer, and policy maker, lead to the question of whether production systems that benefit the environment can be sufficiently rewarded through the market place for primary products or whether long term support for the creation of the public good, landscape and environment, are needed.

The challenge of adding value for the primary producer of agricultural products is considerable, and is heavily influenced by the structure of the marketing chain and the effectiveness of the market intelligence channels. These challenges become even greater in the Less Favoured Areas (LFAs) where physical limitations on production systems and distance from markets are more pronounced. Furthermore, these areas include some of the most sensitive environments and landscapes of Europe. Consequently, this paper will draw on the results of a consumer survey carried out in LFAs in Scotland, Germany, France and Italy. The survey assesses consumer attitudes of what constitutes quality and the paper discusses the opportunities this creates for establishing a niche market for selected livestock products produced in these areas.

Materials and methods

In order to compare and contrast consumer attitudes to product quality, four study regions have been considered, each of which is both an LFA and an area of outstanding natural beauty. The areas chosen are the Loch Lomond Park Authority area of Scotland, the Rhön Biosphere Reserve in Germany, the Luberon Regional Park in France and the Matese Massif of Italy. All these regions produce lamb. Consequently, this commodity was chosen as the product used to assess the regional characteristics of the market.

A random survey of consumers was carried out, between autumn 1997 and early summer 1998, within the study area and the nearest large town or city to the study area. In Scotland's case the nearest city was Glasgow. The survey was targeted at consumers between the ages of 18 and 75 who purchased lamb. The structure of the sample is shown in Table 1.

Table 1
Structure of survey of consumers of lamb

	Total	Scotland	Germany	Italy	France
Sample size	1030	146	160	426	289
Age (% in grp)					
18-24	9	10	6	10	9
25-40	36	35	31	37	38
40-60	39	35	47	37	41
>60	16	19	16	16	12
Gender (%)					
Male	37	50	48	29	35
Female	63	50	52	71	65

Results

A series of common questions were asked in each study area to assess the relative ranking that each consumer gave to a number of issues relating to the purchase of lamb. Thus, the consumer was asked to reflect on a number of considerations, listed in table 2, when they buy lamb.

Product quality is shown to be the key criteria in the purchase decision in each country, being ranked first in each country on their mean scores. Similarly, animal welfare considerations were also generally accorded a high level of importance across all countries, consistently achieving the second or third ranking. In contrast, the importance of the relationship between the product, and landscape and tradition are generally scored lowly by all consumers and achieve the lowest rankings.

Table 2
Consumer perception of factors influencing the buying decision
(1 = unimportant, 5 = very important)

	Total		Scotland		Germany		Italy		France	
	mean	st.dev	mean	st.dev	mean	st.dev	mean	st.dev	mean	st.dev
Product quality	4.71	0.64	4.63	0.93	4.77	0.48	4.78	0.59	4.60	0.60
Animal welfare	3.92	1.31	3.23	1.70	4.47	0.76	4.21	1.29	3.46	1.13
Regional label	3.50	1.54	2.47	1.61	4.05	1.14	4.25	1.29	2.64	1.20
Eco-label	3.45	1.58	1.79	1.33	4.32	0.76	4.09	1.39	2.87	1.44
Landscape	3.41	1.49	1.51	1.12	3.66	1.31	3.74	1.48	3.71	0.99
Tradition	3.34	1.48	2.41	1.58	3.22	1.33	4.06	1.35	2.87	1.20
Price	3.17	1.46	3.98	1.41	2.93	1.08	3.37	1.63	2.64	1.12

However, two issues do show a level of variation between study areas, namely price and eco-labelling. Price is considered by the Scottish consumer to be ranked second only to quality in the buying decision, indicating that value for money clearly plays a significant part in the Scottish consumers' attitude to buying lamb. In all the other study areas, price was accorded the lowest level of importance. This does not necessarily mean that price is unimportant in the buying decision, but that other issues will influence the buying decision to a greater extent. A dichotomy in views relating to eco-labelling, for example labelling associated with the production system being organic, is revealed. Much greater importance is associated with labelling of this type in Germany and Italy than in France or Scotland.

Niche marketing can potentially be achieved through regional labelling. In relation to this issue, a divergence in its level of importance is also revealed between Germany and Italy, who place greater importance upon it compared to France and Scotland. However, the level of disaggregation in regional labelling may influence the decision.

In the expectation that quality would be a key criterion in consumers purchasing behaviour, the survey asked a series of questions about elements of the product mix which may be regarded as contributing to quality. The results are summarised in Table 3. Consolidated results across the four study areas show freshness and taste to be key elements of perceived quality followed by concerns over chemical residues in the meat. However, considerable variations occurred between countries. Thus, the German consumers were shown to have greatest concern for chemical residues, by ranking it first amongst their perceptions of quality, and the Scots least concern. The French and Italians ranked tenderness above taste, while in German and Scotland the ranking of these two elements was reversed. Equally however, freshness was consistently given a high ranking and, with the exception of Scotland, fat-levels and colour were given a low ranking.

Table 3
Consumer perception of factors influencing quality
(1 = unimportant, 5 = very important)

	Total		Scotland		Germany		Italy		France	
	mean	st.dev	mean	st.dev	mean	st.dev	mean	st.dev	mean	st.dev

Freshness	4.77	0.62	4.80	0.74	4.66	0.81	4.85	0.54	4.72	0.52
Taste	4.40	0.97	4.72	0.87	4.65	0.52	4.71	0.76	3.66	1.08
Chemical residues	4.36	1.13	3.67	1.68	4.80	0.52	4.77	0.84	3.87	1.06
Tenderness	4.33	0.93	4.66	0.88	4.44	0.70	4.98	0.92	3.86	0.89
Fat levels	3.83	1.34	3.59	1.65	3.90	1.09	4.16	1.28	3.43	1.25
Colour	3.65	1.37	4.03	1.35	3.44	1.10	4.25	1.16	2.71	1.21

Equally, great variability in scoring is seen between countries. Thus, on the lower ranked qualities, fat levels and colour, there was generally a much higher standard deviation within country scores. In contrast the higher ranking qualities in each country had a much lower spread of scores. Thus, freshness consistently revealed a low standard deviation in score in all study areas. This was also the case for taste and tenderness. In contrast, in Germany chemical residues, which were accorded high priority, showed a low standard deviation but in Scotland, where chemical residues received a low overall ranking a much wider range of individual scores was recorded.

When the elements of quality were considered against the age of those surveyed, no significant differences were observed for the scores of many of the elements of the product mix within countries. Nevertheless, Italians show some differences, at 5% significance levels, with age for colour and tenderness, and the French for fatness. In Italy, the oldest age group score tenderness as more important than the younger age groups and colour much lower. In France, the youngest and oldest age groups score fatness more importantly than their middle aged peers. Although not shown to be significant, the youngest consumers in Scotland also show more concerned about fat levels than their older peers.

In an effort to identify how producers could provide information to their final consumers those surveyed were asked where they got information about the products they consumed, Table 4. Scottish consumers are revealed to rely much more heavily on label information than consumers in other regional surveys. In the other regions trust in the supplier, the butcher, supermarket or restaurant, providing the information when asked or voluntarily is more apparent. Equally, in Italy and France consumers are more likely to use their own knowledge and therefore be well informed themselves about the products they are consuming. The dependence upon labelling in Scotland may be a reflection of the greater use of supermarkets when purchasing lamb products than in other study areas. Eighty-two per cent of Scottish consumers surveyed make some use of supermarkets when buying lamb, although one fifth of these also use retail butchers, compared to 52% in Germany, 71% in Italy and 48% in France.

Table 4
How would consumers like to be informed about lamb product

	Total	Scotland	Germany	Italy	France
	% of survey respondents				
Suppliers	46	12	67	68	43
Labels	20	38	15	4	19

Own knowledge	24	10	14	27	36
Supplier & label	7	29	0	0	1
Other	3	11	3	0	0

Consumers were asked to consider what elements of the physical production system were associated with the product qualities that they had identified. In all the study areas, consumers generally observed that production methods were important, and that the physical location of the production process was less important, Table 5.

Table 5
Consumer perception of physical factors influencing quality
(% of consumers surveyed)

	Scotland			Germany			Italy			France		
	Place	System	Both	Place	System	Both	Place	System	Both	Place	System	Both
Freshness	18	20	61	46	50	0	25	39	34	9	21	69
Taste	10	19	70	9	83	0	25	39	34	23	66	9
Chemical residues	11	29	60	4	85	0	24	39	34	6	68	24
Tenderness	14	24	61	6	74	0	24	39	34	6	66	24
Fat levels	9	28	62	8	75	0	24	40	34	4	92	2
Colour	11	21	61	8	67	0	25	39	34	11	73	14

Note: 1. Numbers do not add to 100 due to exclusion of other answers
2. In Germany respondents were asked to make a choice between place and system only

While elements of the product mix may be identified by consumers to support farmers, there also has to be a willingness to pay a premium to elicit that feature in the product. This has been assessed at a general level across all study areas and in more depth in the Scottish context. In each study area, the consumers were asked to indicate whether or not they would be prepared to pay a premium for a product marketed using a locally distinctive label. The results are summarised in Table 6.

Table 6
Proportion of consumers willing to pay a premium for lamb
marketed using a locally distinctive label

	Total	Scotland	Germany	Italy	France
Yes	66	32	79	75	65
No	30	64	21	17	35
Don't know	4	2		8	

The marked contrast between the Scottish answers and those in other study areas is apparent with the Scottish consumer less inclined to pay a premium for distinctive product. Within the age groups, those under 25 and those over 60 are the least likely of the Scottish and Italian consumers to pay a premium. In the German study area, the survey revealed that it was the younger consumer, those under 40, who was more inclined to pay a premium. In contrast, in France those under 40 were the least likely to pay a premium

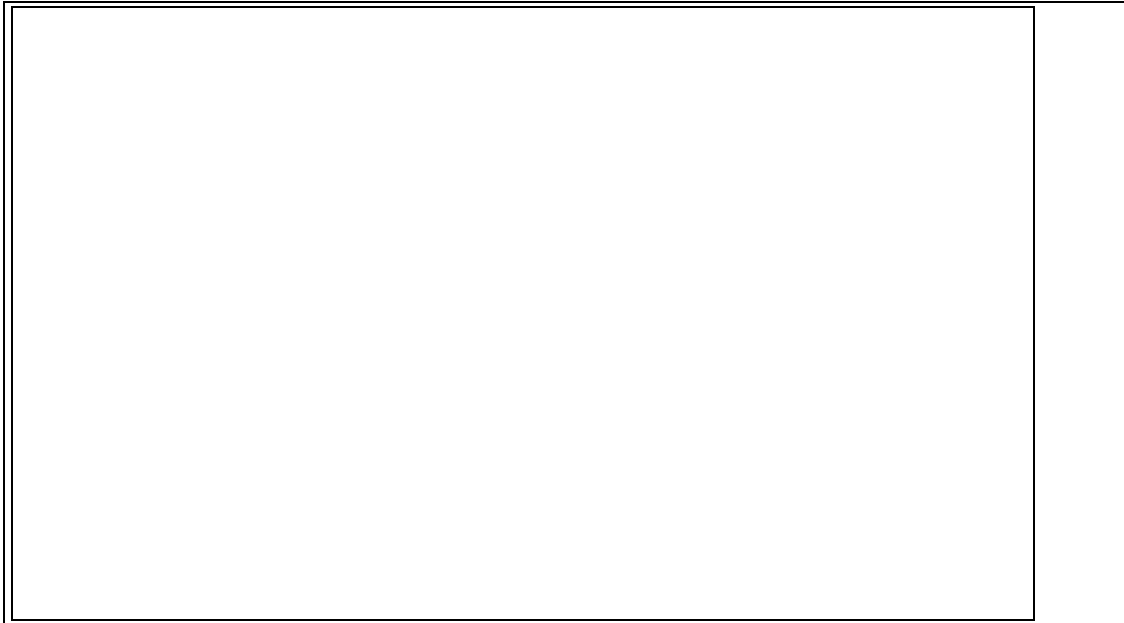
Even if a premium is offered to producers, will it be sufficient to encourage a change in the producer's actions? To this end, consumers in Scotland and Germany who were prepared to offer a premium for a distinctive label were asked to quantify the level of premium they would consider paying, table 7.

Table 7
Level of premium offered above current market price for
lamb with distinctive labelling by those prepared to pay a premium

	Scotland	Germany
< 10%	43	9
10-20%	8	45
20-30%	20	33
> 30%	8	13
Don't know	20	

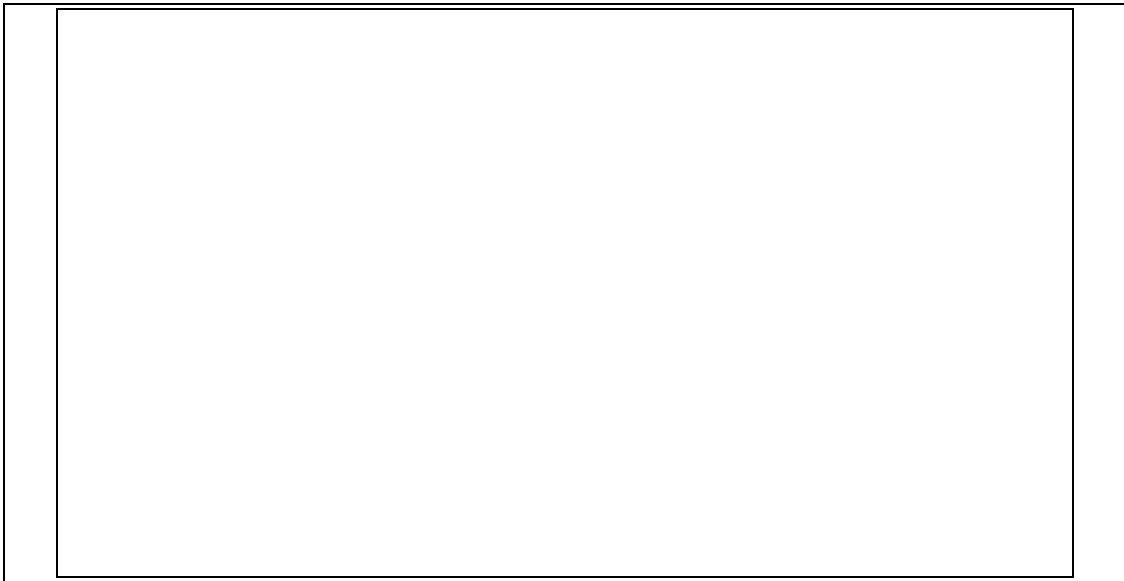
A contrast is once again apparent between the Scottish and German responses as the Scots generally offer a lower premium than the German consumers. However, it is significant to note that distribution of the range of premia offered by the Scottish consumer shows a commitment by some to pay a significant level of premium, between 20-30% of current retail price. This analysis was taken further in Scotland by asking consumers the extent to which they were prepared to pay a premium for different distinctive labels and the results are shown in Figure 1.

Figure 1
Scottish consumers willingness to pay a premium for different distinctive labels
on lamb



Distinctive labels associated with animal welfare are the only type of label for which more than 50% of the population was prepared to pay a premium. Thirty per cent of the survey population was prepared to pay a premium for product of known origin. Products identified as being local to the buyer and products identified as organic would receive a premium from 24% of the survey population. This level of interest in organic or local labels suggests that a significant niche market can exist. Organic produce is already exploiting this niche market within the UK and Europe. The niche market for locally identified produce is being approached by the development of “Farmers markets” in some parts of the UK. However, the question still remains of the extent to which a sufficient premium exists. To consider this element, the Scottish consumers were asked to indicate the size of the premium they would be prepared to pay for a Scottish label and for a local “Loch Lomond” label, the results are summarised in Figure 2. The results show a greater willingness to pay a premium for “Scottish Lamb” than “Loch Lomond” lamb. When averaged across the range of premium offered, the gain to a Scottish producer in Loch Lomond may be no more than £1.30 per lamb sold (Ashworth *et al.* 1999a). However, this would only be achieved among the 24% of consumers willing to pay a premium for a locally branded product. This would still leave a considerable volume of product to be sold without a premium.

Figure 2
Willingness of consumers to pay for a “Scottish” or “Loch Lomond” label



Discussion

The results of consumer surveys in different Member States raise a number of issues for producers and policy makers alike. Niche market opportunities do exist. However, the number of consumers willing to pay significant premiums are small. In an effort to exploit the niches that do exist, producers face a number of challenges. Equally, while commonalities do exist between Member States, some differences are also apparent. Most noticeably, there is a dichotomy in the importance of price between Scotland and other study areas in the purchase decision.

Nevertheless, opportunities do exist for producers to add value through improved product quality and product differentiation. However, the extent to which regional branding can achieve or benefit from these elements is still to be confirmed. Consumers do not generally identify place of production with product qualities, but rather they associate quality of product with the production system. Thus, to exploit the market potential the producer will have to promote the elements of the production system he uses. To do this, he needs to promote the virtues of his production system against elements of the quality mix identified by the consumer, particularly animal welfare and chemical residues. Indeed these are the elements of the quality assurance schemes currently being developed by various bodies within the United Kingdom, for example the RSPCA's "*Freedom Foods*" initiative and the numerous farm assurance schemes. However, these schemes are generic in nature and do not provide the unique selling point required to raise the value and profile of products from the study areas considered in this paper. Instead, this would require consideration of regional branding and product identity.

The level at which regional branding is to be considered is also identified as an area for further consideration. In the Scottish context, consumers were more likely to pay a premium for a "Scottish" product than a "Loch Lomond" product. In considering the same question in the French study area Boutonnet (1999) identified a number of problems in achieving a localised niche product and concluded that "retailers are interested in a regular convenient supply.....for them, every type of formal distinction is, at best, useless, or worse, disruptive." Discussion with retail butchers in and around the Scottish study area produced a similar response. Retail butchers did not

buy directly from the producer, relying instead on a meat wholesaler to provide them with a consistent quality product on a regular basis. Consequently, the retail butchers had little interest in branding a local product. However, they do sell products branded as a national “Scottish” product just as French retailers are prepared to use nationally recognised labels.

A further element in the willingness to pay a premium for a local or regional brand may be connected to the association by the consumer between the area and the product offered. Within the Scottish study area, consumers were found not associate the area with sheep production, (Ashworth *et al.*, 1999b). In contrast, in the German study area, a product of particularly distinctive local identity exists namely “Rhön lamb”, which is produced from the local Rhön breed of sheep. In this study area, the product has potential for both a regional identity and a product identity. Nevertheless, Rahmann (1998) identified a number of constraints to the exploitation of the niche market offered by this combination of selling points. These included the problems of low meat quality and quantity, creating the associate problem of continuity of supply, the seasonality of production not equating with the seasonality of demand and the loss of “added value” when the product was moved outside its immediate regional market.

The results of the case study analysis described in this paper show that opportunities do exist for the development of niche markets for sheepmeat. However, there is little evidence that using environmentally sympathetic systems provides a marketing point on which to base a regional added value campaign in Scotland. Even where it does exist the level of premium offered is low and can be insufficient to offset the additional costs of developing and sustaining the product and marketing system required to market the product. A rather high premium is identified as being possible in the German market and also a greater proportion of the population are prepared to pay a premium.

Although qualitative in nature, the results of this case study raise two questions or challenges for producers namely:

- at what level should local distinctiveness be identified? and
- can a locally branded product be supplied in sufficient quantity, quality and continuity of availability to exploit the niche?

The analysis also raises issues for policy makers. Particularly, the analysis suggests that there are limited rewards in the market place for production systems that are particularly sympathetic to the local environment. This is particularly the case if this incurs additional costs or changed cost structures through modified farming practices. To achieve this goal, policy intervention geared directly to environmental management will be required. Nevertheless, niche markets have potential to sustain farm businesses and by retaining farm businesses in Less Favoured Areas the niche markets will help to manage the environment. Equally however, it is concluded that significant regional differences in response to niche marketing can be expected in different parts of Europe. The impact of regional cultures and market infrastructures have not been considered in this paper, although this analysis suggests that they are important.

Acknowledgements

The authors wish to acknowledge the financial support of the EU (Contract FAIR1 CT95-0481) in carrying out the research on which this paper is based. SAC receives financial support from the SOAEFD.

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