

# Identifying Marketing Opportunities Under the New Organic Transitional Certification Program

## Final report for GS17-169

Project Type: Graduate Student

Funds awarded in 2017: \$16,492.00

Projected End Date: 08/31/2019

Grant Recipient: University of Florida

Region: Southern

State: Florida

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## Project Information

### Summary:

Demand for organic products in the U.S. market has seen fast, continuous growth. However, with less than 1 percent of U.S. farmland classified as organic, the organic industry in the United States, which has never kept pace with demand, heavily relies on imports (NSF, 2017). This situation mainly arises from two aspects. First, more people are purchasing organic food at a higher frequency because of the perceived health and environmental benefits. Second, many growers hesitate to transition their land from conventional to organic production due to potential losses during the three-year transitional period.

To address this challenge, the Organic Trade Association (OTA) developed a new partnership with the U.S. Department of Agriculture (USDA) in 2017 to encourage and guide farmers transitioning to certified organic production (OTA, 2017). Farmers in transition now can label their products as “certified transitional” or “transitional” after their operations have been inspected by an accredited certifying agent. However, questions arise about whether consumers will accept the new labeling and purchase “transitional” organic products.

This research aims to identify the economic opportunities for farmers by investigating consumers' preference for the “transitional” label. We will estimate consumer willingness-to-pay (WTP) for the “transitional” label, test the message that best promotes the new label, and identify the market segments that are most willing to pay for the label. The results from this study will help farmers better identify marketing opportunities and help policy makers develop more effective policies to motivate farmers toward organic production.

The purpose of this project is threefold: 1) to determine market potentials by

eliciting consumer preference and attitude toward the “transitional” label by estimating their WTP; 2) to develop pricing and marketing strategies by identifying the messages that most effectively promote the “transitional” label; and 3) to identify target market segments by determining which consumer groups are most likely to support farmers transitioning to organic crops in the U.S. southern region.

#### Project Objectives:

The ultimate goal of this project is to promote organic farming operations and enhance the organic food supply by assessing the market opportunities provided by NCTP. The success of NCTP will significantly reduce the barriers for conventional farms to transform to organic farming operations, increase farmers' income, and satisfy the increasing consumer demand for organic products. We plan to test our hypotheses and accomplish the objective of this application by pursuing the following three specific aims:

1) Determining the market opportunities by eliciting consumer attitude and preference toward the “transitional” label through the estimation of their WTP.

We postulate that there is promising marketing potential for the transitional label due to the fast growth in domestic consumer demand for organic food. Also, we postulate that consumers have positive attitudes toward the transitional label, but their knowledge of the label is limited. In addition, we postulate that consumers will be willing to pay a premium for the products labeled “transitional”. Consumer WTP for the labeled products will vary by the perceived benefits of different consumer types. A positive WTP is expected to motivate growers to adopt organic farming practices to capitalize on new marketing opportunities.

2) Develop pricing and marketing strategies by identifying the messages that most effectively promote the “transitional” label.

Although there is a promising marketing potential for the transitional label due to increased consumer demand, the promotion of the new label may be inhibited by consumers' limited knowledge about the label. We postulate that information regarding the benefit of the transitional label will enhance consumers' knowledge and help promote the labeled products. Once consumers are aware that transitional food is produced under the same organic standards as organic food, consumers will be more willing to pay a price premium for the transitional label. The impact of the message and information tested on consumer preference will help growers and producers to develop marketing and promotion strategies that can effectively increase consumer demand for the transitional label.

3) Identify target market segments by discovering the consumer groups that are most likely to support farmers transitioning to organic in the U.S. southern region.

We postulate that most consumers will have positive attitudes for the transitional label and will be able to distinguish transitional products from conventional products. However, not all consumers will be willing to pay the same price premium for the transitional label. For example, consumers who purchase organic products may only prefer organic; those who seldom or never buy organic products may not care whether or not the products are organic, and some cannot purchase organic products due to budget constraints. By identifying different types of consumer groups, effective marketing promotion strategies can be developed to appeal to different target market segments.

In addition, knowledge obtained from the project will provide valuable information for future policy and program development for promoting organic and other sustainable agriculture. We will deliver the results of the project to government agencies, producers, researchers, and other stakeholders, thus bridging the

information gap to promote sustainable agriculture.

## Research

### Materials and methods:

A survey was designed and distributed online by Qualtrics, a well-known marketing research firm to its consumer panels across the United States from January to February of 2019. The University of Florida IRB office approves the research study. The survey is anonymous, and participation is voluntary. Qualified respondents must be the primary household shoppers (purchase grocery more than 50% of the time) and are at least 18 years or older. During the distribution of the survey, two “trap” questions are used to identify the respondents who do not read the questions carefully to improve the data quality (Gao et al., 2015; Jones et al., 2015). In the end, the survey collects a total of 3,170 valid responses, which is used for the final data analysis.

### Research results and discussion:

Around 67.7% of the respondents in this study are females, slightly more than that of the census of the primary household shoppers. The age distribution of the respondents in the sample is very similar to the population census data. In terms of the educational attainment, around 18.6% of the respondents stop education at high school, and 21.1% have a degree of some college. Around 11.9% of the respondents obtain a 2-year college degree. Nearly 27.9% of the respondents in the sample have a degree of bachelor’s degree, and 18.1% obtain a graduate or professional degree. About 71% of the respondents in the sample have no kids in the household. The median household income falls into the range from \$50,000 to \$74,999, with 17.0% of the respondents have an income in this range. The sample slightly overrepresents the households with income from \$150,000 to \$199,999 while underrepresenting the group with an income of \$200,000 or above. About one-third of the respondents (37%) in this study have a full-time job, and about 11% of them are employed part-time. The median expenditure falls into the range from \$100 to \$149. The mode of the respondents has food expenditure ranging from \$50 to \$99.

## **Basic Preference for Organic and Transitional Organic**

### Ranking preference for different labels

Approximately 43% of the respondents of the survey like the organic label the most, ranking it as their favorite choice among the four labels, followed by conventional (30%) and GMO-free (22%). Only around 5% of the respondents rank transitional organic as their favorite label. On the other hand, there are around 45% of the respondents rank conventional as their least favorite label, followed by transitional organic (24%), GMO-free (18%), and organic (13%) as their least favorite choice of label. In general, respondents seem to prefer the organic label the most, while not many respondents would choose the transitional organic as their preferred label based upon the current situation.

# Message promoting the transitional organic label

Overall, the message describing the fact that the transitional organic label is created to support the farmers during the transitional period from the conventional to organic has the highest score in terms of the likelihood of increasing the WTP. The second most effective message describes the fact that the transitional organic label is created to motivate more farmers to adopt organic production practices so that the organic price will drop in the long run. The other four messages focus more on what is transitional organic and the characteristics that transitional organic shares with GMO-free and organic. These messages are not significantly different from one the other.

## WTP for Transitional Salad/Cereal/Chips

Using the payment card contingent valuation methods, respondents are asked about their willingness-to-pay for the three food products (salad, cereal, and chips) with different labels. In general, chips receive lower WTP than cereal and salad, in each label category. In the case of chips, conventional has the lowest WTP than those with any other labels (\$2.87/10 oz). Transitional organic (\$3.22/10 oz) has a slightly lower WTP than the GMO-free chips (\$3.31/10 oz), and both are significantly lower than that for the organic chips (\$3.60/10 oz). Cereal and salad follow the same pattern as that of chips.

# Consumer Knowledge and Perception of the Labels

## Consumers' Familiarity with the Labels

The consumer knowledge about three different types of labels are tested by asking whether they have heard, seen, or bought the products with the labels, including USDA organic, transitional organic, and GMO-free. In the current study, only a few respondents never heard of the USDA organic (6.58%), and GMO-free (11.86%). However, over half of the respondents (54.21%) never heard the transitional organic label. Not surprisingly, around 40% of the respondents have seen the USDA organic and GMO-free labels and bought the products with these two labels. Meanwhile, there are only 11.78% of the respondents who have seen the transitional organic label before, and even fewer respondents (6.15%) purchased the products with transitional organic.

## Knowledge about the Organic and Transitional Organic

The consumer knowledge about the relationship between organic and transitional organic is specifically tested using the three questions. For the first statement, respondents are asked whether they agree that converting the land that uses the conventional production method to organic would need at least a three-year transitional period. Only 37.71% of the respondents are able to answer that statement correctly. The second statement says that if the organic operation is applied to a new land, it still needs at least a three-year transitional period, which is not correct. Only 8.96% of the respondents could answer this statement correctly. The third statement claims that during the transitional period from conventional to

organic, the farmers do not need to follow the same production methods as certified organic, which is not correct. Only 12.85% of the respondents answer it wrong, and there are around 48.75% of the respondents who are not so sure about this statement. In general, it seems that a majority of respondents do not know the key features of transitional organic that are associated with organic production.

## Conclusion

This report presents the results of a survey investigating consumers preference for the transitional organic label as well as several other comparative labels, including GMO-free and organic, focusing on chips, cereal, and salad. Information on the knowledge, familiarity, recognition, usage, perception, and WTP for the different labels is also collected.

The general conclusions we can draw from the report are:

- Consumers are more familiar with the organic and GMO-free labels. The transitional organic is not popular and well recognized by consumers compared with the other two.
- Most consumers know the existence of USDA organic and GMO-free while they do not know the existence of transitional organic.
- Most consumers purchase organic products in the food categories of fruit and vegetables than other food categories such as snacks and dairy
- Consumers purchase fewer organic for potato chips, while more for breakfast cereal and salad kit. More organic purchases occur for a healthier
- Consumers are willing to pay the highest for organic products in general (ranging from \$3.60 to \$3.93), followed by GMO-free (ranging from \$3.31 to \$3.56) and transitional organic counterparts (ranging from \$3.22 to \$3.54).
- Younger respondents tend to pay a higher price for all the transitional organic products investigated such as cereal, potato chips, and salad. Males are willing to pay a premium for transitional organic cereal. Respondents with more kids in the household are willing to pay more for transitional organic chips. Consumers with a higher income are willing to pay a price premium for transitional organic chips and cereal. Consumers with higher food expenditure are willing to pay a higher price for transitional organic chips and salad.
- Information treatment is not significant in affecting the WTP for these transitional organic products.

### Participation Summary

## Educational & Outreach Activities

**1** Other educational activities: A survey has been distributed to a national representative sample in the State. The survey has information about organic and transitional organic food labels as well as other information to educate consumers about the benefits of organic and transitional organic production.

### **PARTICIPATION SUMMARY:**

**20** Farmers

## **10** Ag professionals participated

### Education/outreach description:

The results from this project will be presented at a national conference as well as submitted to journals. Journals publication will be reported by the communication service of [Institute of Food and Agricultural Sciences](#) at the University of Florida.

## Project Outcomes

### **2** New working collaborations

#### Project outcomes:

Our project outcomes have provided information on how consumers perceive the agricultural sustainability and will significantly contribute to future sustainability in terms of economic, environmental, and social benefits.

For the economic perspective, our study has shown that consumers in the study are generally willing to support sustainable agricultural products by placing a monetary price premium. Specifically, consumers are willing to pay the highest price for organic products, ranging from \$3.60 to \$3.93, followed by GMO-free products, which ranges from \$3.31 to \$3.56. Although the transitional organic products have a slightly lower WTP, ranging from \$3.22 to \$3.54, the price offered is still significantly higher than that for the conventional counterpart, which indicates a strong preference for the sustainable label. The premium for transitional organic products provide some financial incentives to farmers and encourage more growers to convert their farms from conventional to organic. The increased organic farmland would enhance the sustainability of the agricultural sector of the U.S.

#### Knowledge Gained:

By conducting the study funded by this project in January 2019, we are able to identify the market potential of the transitional organic label by eliciting consumer knowledge and preference.

First of all, our knowledge about sustainable agriculture has been extended in terms of understanding consumer familiarity with several representative sustainable food labels. We anticipate that the US consumers are more familiar with USDA organic and GMO-free products, while we are not aware of consumers' familiarity with the transitional organic label. After conducting the study, we found that around half of the respondents did not know in what circumstances that the transitional organic needs to be applied and what is the requirement of that label when being used. There is still a gap in consumer knowledge about these labels and the potential requirement for them. Therefore, it needs some efforts for these consumers to understand the benefits of the transitional organic label and as a result, make them willing to support sustainable agriculture more consistently. As a result, probably due to the fact the transitional organic is the least known label, it receives a lower willingness-to-pay when compared with GMO-free and organic alternative, meaning that consumers were not so supportive for the label at this moment.

Secondly, since the transitional organic label is not so well established so far, our knowledge about what message that most effectively promotes the transitional organic label has been updated. Before this study, we are unaware of the major motivation for the farmers to support the organic production method and sustainable agriculture. We now understand that the message that notifies consumers that the transitional organic label is created to support the farmers during the transitional period from conventional to organic is the most effective. Following this, the message informs about the fact that transitional organic label was created to motivate more farmers to adopt the organic production practice so that organic production price. While the current knowledge about the label is still limited, consumers are shown to have a strong motivation to support the farmers during the transition period and care about the cost to provide such support. Consumers are willing to support sustainable agriculture but still would consider the price of doing so.

Thirdly, our knowledge about the potential market segments has been updated as well by discovering the consumer groups that are most likely to support farmers in transition to organic in the US market. According to the results of our study, younger, male, those families with more kids, higher incomes and higher food expenditure tend to pay higher prices for a transitional organic product. These are the group of people who may have a better chance of supporting sustainable agriculture in the near future when the transitional organic label is widely implemented.

Lastly, we realized that the long-term goal of achieving sustainable agriculture should be obtained by the cooperative efforts of multiple organizations altogether, including consumers, growers, and policymakers. With more consumers supporting the sustainable production method used by farmers, they would have a better incentive to continue the sustainable practice, which would secure the sustainable agriculture eventually.

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This site is maintained by SARE Outreach for the SARE program and is based upon work supported by the National Institute of Food and Agriculture, U.S. Department of Agriculture, under award No. 2019-38640-29881. SARE Outreach operates under cooperative agreements with the University of Maryland to develop and disseminate information about sustainable agriculture. [USDA is an equal opportunity provider and employer.](#)