

Christoph Breetz

Product packaging as a tool to demand a price premium

Does packaging enhance consumers' value perception to justify a price premium



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Abstract

This study addresses the question of the impact of packaging to demand a price premium leveraging the example of retailer brand premium products in the food segment in Germany. Product tiering is a pricing structure that is commonly used by producers, in which consumers are segmented by willingness to pay for specific (added) product benefits. This is a way of maximizing utility for both consumers and producers, and is commonly already leveraged by producers of branded products, but lately also retailer brands, especially to enable growth outside the value tier. The role of packaging in the current literature is described as being a key influencer in the purchase decision making process, especially in-store.

This research uses a survey across grocery purchase decision makers in Germany to identify the relationship of packaging and willingness to pay across a sample of retailer brand Tier 1, Tier 2 and Tier 3 products as well as a branded product in four different grocery categories (ham, cheese, jam and ice cream). Additionally five demographic factors such as e.g. age are collected. The intent is to answer whether i) packaging currently justifies the premium price of retailer brand tier 1 products compared to other product tiers, ii) packaging justifies the tier 1 retailer brand price premium, and iii) demographics influence the willingness to pay a premium price.

Overall results indicate that the difference in packaging appeal can explain up to 35% of the willingness to pay for a retailer brand tier 1 product. However, results differ by grocery category and can't be easily generalized to the entire food segment, driven by the difference in perceived risk by the consumer. With regards to packaging as sole justification for the price the consumer is willing to pay for the retailer brand tier 1 product the research has not shown any meaningful correlation. Whilst some demographics such as the shopper profile, especially what is defined a loyal shopper in this research, household size, net income or age show a high association with a higher willingness to pay, this yet again can't be generalized across all categories. Only the loyal shopper profile was common across most categories for a general higher willingness to pay.

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