True Differentiation: Producing, Certifying, & Communicating for Diverse Consumers

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# Consumer Demand is Diversifying

<table>
<thead>
<tr>
<th>Intrinsic Quality Attributes</th>
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<tbody>
<tr>
<td><strong>1. Food Safety</strong></td>
<td></td>
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<td>e.g., foodborne pathogens, pesticide residues</td>
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<tr>
<td><strong>2. Nutrition</strong></td>
<td></td>
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<tr>
<td><strong>3. Sensory/Organooleptic</strong></td>
<td></td>
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<tr>
<td>e.g., taste and tenderness, color</td>
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<td><strong>4. Value/Function</strong></td>
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<tr>
<td>e.g., compositional integrity</td>
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<td><strong>5. Process</strong></td>
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<tr>
<td>e.g., animal welfare, organic, use of GMOs, fair trade, natural, sustainability</td>
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This Demand is Part of the Overall Market for Product Quality

- Private incentives to produce food quality
- Market failures in the production and marketing of food quality
  - Largely stemming from imperfect information
    - Search, experience, and credence attributes
  - Addressed by public policy
Agricultural & Food: Companies & Supply Chains

- Place increasing emphasis on differentiation
  - Producing quality
  - Certifying quality
  - Communicating quality

- Through
  - Meeting consumer demand
  - Shaping consumer demand
Agricultural & Food: Companies & Supply Chains

- Respond to and seek to influence public policy that affects:
  - Producing quality
  - Certifying quality
  - Communicating quality
The Quality Assurance Hierarchy is Key in this Environment

- Standard setting mechanism
  - Quality attribute(s) targeted

- Certification
  - Standard enforcement based on conformance to the standard

- Quality signaling to communicate the product meets the standard
  - Certificates in supply chain channels
  - Labeling to consumers
### Certification System Ownership

<table>
<thead>
<tr>
<th>Type</th>
<th>Standard Owner</th>
<th>Type of Certification Bodies</th>
<th>Consumer Labeling (If Done)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Private, 1st or 2nd Party</td>
<td>1st or 2nd Party</td>
<td>Voluntary</td>
</tr>
<tr>
<td>II</td>
<td>Private, Collective 3rd Party</td>
<td>1st or 2nd Party</td>
<td>Voluntary</td>
</tr>
<tr>
<td>III</td>
<td>Private, Collective 3rd Party</td>
<td>3rd Party</td>
<td>Voluntary</td>
</tr>
<tr>
<td>IV</td>
<td>Independent 3rd Party</td>
<td>3rd Party</td>
<td>Voluntary</td>
</tr>
<tr>
<td>V</td>
<td>Government</td>
<td>Government or 3rd Party</td>
<td>Voluntary</td>
</tr>
<tr>
<td>VI</td>
<td>Government</td>
<td>Government</td>
<td>Mandatory</td>
</tr>
</tbody>
</table>

1st Party=Product Seller, 2nd Party=Product Buyer, 3rd Party=Not Buyer, Seller, or Government
Major Questions Facing Agricultural & Food Companies & Supply Chains

- What is true differentiation?
  - What supports it?

- How much of differentiation is:
  - Responsive to consumer demand for underlying quality attributes?
  - Altering only presentation of products?

- How good is quality assurance and certification?
Interaction of Demand & Public Policy

- Nutrition Quality & Labeling
- Process Quality & Labeling
- Food Safety Quality & Labeling
Interaction of Demand & Public Policy

- Nutrition Quality & Labeling
Guess your weight-related illness.
Example:
Annual Average Per Household Purchase % of Margarine/Spreads with Trans Fat Free Claims
Interaction of Demand & Public Policy

- Process Quality & Labeling
  - Sustainability
  - Genetic Modification
  - COOL
  - Animal welfare
GOT A BIG ONE!

UNSUSTAINABLE FISHING

THE ONE THAT GOT AWAY.
Example:
How Well Does Certification Work?
Eco-Labeling of Fisheries

- Marine Stewardship Council

- Friend of the Sea

Interaction of Demand & Public Policy

- Food Safety Quality & Labeling
Example:
U.S. Food Safety Modernization Act

- Produce Safety Rule
  - First extensive on-farm regulation by FDA

- Preventive Controls for Human Food Rule
  - New requirements for hazard analysis and risk-based preventive controls
  - Revisions to existing Current Good Manufacturing Practice (GMP) requirements

- Import Rule & Accreditation of Third-Party Auditors
  - Importer accountability – Foreign Supplier Verification Program
  - Third party certification
  - High risk foods
  - Voluntary Qualified Importer Program
  - Authority to deny entry
Major Questions Facing Agricultural & Food Companies & Supply Chains

- What is true differentiation?
  - What supports it?

- How much of differentiation is:
  - Responsive to customer/consumer demand for underlying quality attributes?
  - Altering only presentation of products?

- How good is quality assurance and certification?