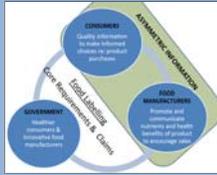


Market Failure and Food Claims: An Assessment of the Prevalence and Usage of the Exaggerated Product Claim

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Background & Problem

Exaggerated product claims, a claim format where the on-package claim is true but incongruence exists between the claim and other nutrient levels (e.g., products promoted as low fat may have higher salt), are relatively common in the marketplace. This form of claim can give the impression that a product is of a higher quality when in fact consumption of the food may not have a positive net quality contribution to the consumers' diet.

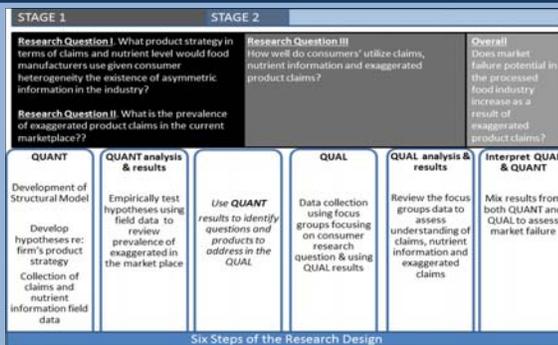


Research Questions

Does the potential of market failure in the processed food industry increase as a result of exaggerated product claims encouraging consumers' overestimation of product quality and over consumption of suboptimal foods?

1. What product strategy in terms of claims and nutrient level would food manufacturers use given consumer demand and the existence of asymmetric information in the industry?
2. What is the prevalence of exaggerated product claims in the current marketplace?
3. How do consumers' understand and use claims, nutrient information and exaggerated product claims when assessing product quality?

Multi-Methodology



STAGE ONE is a **quantitative firm-focused inquiry** that uses a vertical product differentiation model to develop hypotheses regarding the firm's strategy under various scenarios of consumer demand. **Empirical analysis** tests hypotheses using data comprised of claim & nutrition information collected from approximately 1,500 product packages in BC grocery stores.

STAGE TWO is a **qualitative consumer-focused inquiry** reviewing how consumers utilize nutrient information, claims, and exaggerated product claims in their quality assessment and selection. Data was collected via a set of **eight focus groups** at four locations in Vancouver, British Columbia.

Quantitative Results

Testing the following hypotheses

Ha: Claims are a significant predictor of nutrient content (fat, sat-fat, trans-fat, cholesterol & sodium).

Ex: Given a trans-fat related claim the level of all or some of sat-fat, fat, sodium or sugar increases.

$Y = a + bX$, where

Y = nutrient X = voluntary claims as defined by Health Canada (15) and two control variables: product category (21) & product shelf density

Results support that exaggerated product claims are used in the industry and this may make it difficult for consumers to use claims as a guide to overall healthier food choices. **Sometimes claims work & sometimes claims don't work for consumers**

TABLE OF ESTIMATED COEFFICIENTS						
	FAT (g)	Sat Fat (g)	Trans- fat (g)	Sodium (mg)	Cholesterol (mg)	Sugar (g)
Adjusted to standard serving size						
Saturated Fat Claim	.654 *					
Trans Fat Claim	1.09 ***	.366 ***		45.83 ***	2.23 ***	
Fat Claim		-1.18 ***	-.082 ***			
Cholesterol Claim	-.988 **	-.250 *		44.41 **		
Check Off Claim (1)	-.892 ***	-.0356 **		-24.77 *		.850 **
Natural Claim		-.160 *		-68.71 ***		
Organic Claim	-1.30 ***	-.489 ***	-.070 **	-123.20 ***	-2.61 ***	

Significance levels: *sig at 0.1; **sig at 0.05; ***sig at .01 (1) Health check, Cdn Diabetes

Qualitative Results

Consumers are trying hard to select healthier processed food products but are unable to fully support that selection as on-package information is difficult for them to utilize.

Consumers want to be nutrition savvy & are trying very hard to be just that

Additionally, consumers in the focus groups indicated:

- Lack of awareness re: usage of claims during product selection
- Low to medium ability re: utilization of nutrition facts label (NFL)
- High trust of select check off claims (Health Check, Cdn Diabetes)
- Low awareness of "rules" surrounding claims or role of Health Canada's and Canadian Food Inspection Agency's
- Skepticism and frustration with on-package information & NFL
- Lack of awareness regarding exaggerated product claims
- Wariness of food company information but not blaming them

Multi-Method Results

	Food manufacturers find it profit maximizing to use exaggerated product claims as a product strategy	Strong prevalence of exaggerated product claims in the marketplace	Consumer utilize claims, nutrition information and exaggerated product claims when assessing product quality
Strong Potential for Market Failure	Yes	Yes	No



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