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**Abstract CMD-04**

**Market Failure and Food Claims: An Assessment of the Prevalence and Usage of the Exaggerated Product Claim in the Processed Food Sector**

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Over the past decade the Canadian government has implemented a number of food labelling regulations in an attempt to reduce asymmetric information in the processed food industry. Of particular importance are exaggerated product claims, which give rise to an incongruence between claim and nutrient levels (e.g., products promoted as low fat may have higher salt). These exaggerated product claims, which are now common in the processed food market, give the impression that the 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. The objective of this research is to determine if exaggerated product claims are giving rise to market failure in the processed food market, despite current food label regulations.

A sequential two stage multi-method research design is utilized in this research. Specifically, 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 data which is used to test the hypotheses is comprised of claim and nutrition information collected from approximately 1500 product packages. 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 for Stage two was collected via a set of eight focus groups at four locations in Vancouver, British Columbia.

Noting that all results are relative to a standard serving size, the empirical stage one analysis reveals that when a saturated fat claim is present, fat levels per standard serving size were higher by 0.654 grams. Other significant relationships include: fat levels are 1.092 grams higher when trans-fat claims are present; saturated fat levels are higher by 0.366 grams when trans-fat claims are present; trans-fat is 0.031 grams higher when ingredient claims are present. The stage two qualitative analysis provides important insight into consumers' perception of nutrition information and claims (regular and exaggerated). Revealed themes include a high interest in claim messages combined with a lack of ability to use nutrition facts label, a high trust of association claims, a low trust of nutrient content industry claims, a lack of awareness regarding "rules" surrounding claims, little knowledge of Health Canada and Canadian Food Inspection Agency role in claims, a high interest in healthier processed foods and a lack of awareness regarding exaggerated product claims. Focus group participants revealed themselves as "wannabe nutrient savvy."

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