

Zwick Center for Food and Resource Policy

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## **How to Profit From Being Environmentally Friendly**

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*Note: This article was written based on research from Bridget Behe, Ben Campbell, Jennifer Dennis, Charlie Hall, and Hayk Khachatryan*

As a result of recent economic downturns and heightened competition, nursery and garden retailers have faced declining revenue and profit margins. Today, as the industry remains challenged by tight profit margins, increased attention on consumer preferences and factors that influence individual choice behavior is needed.

Recently, marketing of products with environmentally friendly characteristics has become a promising strategy to attract a specific segment comprised of environmentally conscious consumers. However, the question is whether investments in environmentally friendly production practices are economically viable, which partially depends on consumers' preferences and demand for certain pro-environmental attributes.

Does it "pay" to be environmentally friendly? Are individuals concerned about the environment necessarily willing to pay a price premium for environmentally friendly plant production practices? The extent to which individuals are concerned about environmental problems may influence decisions for products that offer environmentally friendly characteristics.

The key is to know who these people are, and how to market to them accordingly. If you find the right answer to these questions, you're on the right track.

### **The Goals Of The Survey**

In May 2011, the researchers conducted a study designed to demonstrate consumers' willingness to pay a premium for environmentally friendly production practices and plant attributes. The study, funded by the USDA Federal-State Marketing Improvement Program, surveyed 2,511 consumers, with 68 percent and 32 percent of respondents from the U.S. and Canada, respectively. The U.S. sample had an average age of 35.8 (compared to U.S. Census estimate of 37.2) with 78.1 percent Caucasian (U.S. Census average 78.1%). The U.S. sample was a little less representative in terms of average household income, \$65,273 vs. \$52,762, and gender, 58.3 percent male vs. 49.2 percent male.

The survey focused not just on who is concerned about environmentally friendly practices, but what they were specifically concerned about. For example, each person was asked if their environmental concerns were based on family interests, community interests, or global interests. Within each of these categories, they were also asked the degree of their concern.

For example, preferences for goods produced using environmentally sustainable production methods may be different for the individuals who assign greater importance to the environmental consequences. In the context of the study, one such outcome is consumers' choice for plants that are grown using environmentally friendly production practices (i.e., sustainable energy and water saving production methods), offered in non-conventional containers (i.e., compostable, plantable and recyclable), and produced locally as opposed to being imported or produced elsewhere within the U.S.

### **Your Buyers Might Pay More**

The results of the survey revealed some interesting findings. For example, the respondents who were concerned about environmental consequences were willing to pay a price premium for compostable (25.5¢), plantable (14.3¢) and recyclable (17.5¢) potting containers. While these results showed that individuals were willing to pay higher premiums for non-conventional potting containers, further analysis showed that the estimates differ depending on the individuals' level of concern.

Those more concerned with community and global issues were willing to pay price premiums for both compostable (27.2¢ and 26.9¢) and recyclable (16.2¢ and 16.9¢) potting containers. In contrast, those whose concerns were based more on their family were willing to pay a 24.1¢ price premium for compostable containers, but no premium for the plantable and recyclable containers. Individuals with higher degrees of environmental concern were willing to pay a 28.8¢ premium for locally produced plants, while they discounted imported plants (as opposed to plants produced within the country) by \$1.765. Further analysis showed that the price premiums for locally produced plants differed based on concerns, ranging from 32.4¢ for the group more focused on family issues, 34.4¢ for those focused on the community, to 30.9¢ for the group focused on global issues.

The survey also showed that the consumers who assigned higher importance to environmental consequences were willing to pay a price premium of 14.8¢ for plants grown using energy-saving production practices. In line with this finding, the respondents who assigned lower or no importance to environmental consequences were not willing to pay any price premium for any of the pro-environmental production practices.

### **How You Can Profit From This**

So what can you do to take advantage of knowing more about where your customers' concerns lie? There are a few steps you can take.

- Pay attention to your customers and learn more about their main concerns. Use newsletters and social media to ask questions about environmental issues.
- Weigh the costs and benefits of singling out products to promote as environmentally friendly. Make sure there is enough demand from your customer base to make it economically viable.
- Think long and hard about which products you want to highlight, and how you plan to position them. Better understanding the effects of individual differences in environmental concerns will help you position products most profitably toward the environmentally conscious consumer market segment. Some individuals are willing to pay a premium for select horticultural products, but not all motivations produce the same results.
- Keep track of any information you collect on your customers. By quantifying individuals' environmental concerns, you can measure behavior and offer specific products and services to consumers (e.g., plants grown in recyclable, compostable and plantable containers).

The bottom line is that garden centers should look at not only consumers' demographic characteristics, but also psychometric differences, such as the importance that their customers assign to the environmental consequences.

Individuals with higher degrees of environmental concern are willing to pay higher price premiums for pro-environmental production related attributes, but this willingness to pay more differs depending on their exact concerns.

### **Three Ways To Communicate With Your Customers**

Once you've identified that some of your customers will be paying to pay more for products and practices that they view as environmentally friendly, the next step is to highlight what you're doing in this area. Bridget Behe offers three tips on how to communicate this message:

1. Don't just say you're environmentally friendly; explain why it matters. "We need to communicate benefits, not just the plants. So, what is the benefit of using water conserving practices to grow plants? Your message should be something like. 'We all want to be better stewards of the environment, and we recognize this point, too. To be a better steward, we have reduced our water bill by xx over the past five years.'"

2. Determine the best platform for communicating your message. “Is it on a creative sign near the hose spigot, or on a website banner or the bottom of an email? When I visited Gaia Resort in Napa Valley in 2010, they had this television screen behind the check-in desk. Those who weren’t concerned about the environment could ignore it, but I was impressed! I thought it was a great way to communicate a message to those who were receptive to it.”

3. Talk about recycling plastic containers (and offer that option to those who are interested) and energy-savings (in lights, fuel, etc.) but also be willing to make price increases on some items that can be differentiated based on production practices or other distinguishing characteristics. “Our industry is great at creating value in the products we grow. We are also often quite good at delivering value. We can begin to reap some of that value-added by raising prices and testing the reaction.”

The bottom line, says Behe, is that “I would encourage garden centers to begin tracking the eco-friendly practices they are doing, measuring those impacts, and communicating those benefits to customers in creative and multiple means.”

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