

Owner Motivations in the UK Speciality Food Sector

April 2007

Owner
Motivations in
the UK
Speciality Food
Sector

CCP Policy Briefings

INTRODUCTION

- This paper investigates empirically whether owner motivations are consistent with the neoclassical model of profit maximisation. Contrary to the neoclassical model, if owners gain private benefits from supplying products with certain characteristics, it may be that too many characteristics are supplied to the market. The existence of such owner incentives could be important when considering competition policy in such sectors.
- There is much evidence within the literature to suggest that owner motivations in the UK speciality cheese sector are not simply influenced by the demand side (i.e. the ability to generate revenues), but are to some extent influenced by the supply side (i.e. pleasure from production).
- A full theoretical model was derived that allows owners to consider not only profit, but also utility, in their choices of price, product quality and the use of owner-specific production methods.
- The investigation into whether this is indeed the case first collects information on owner motivation from the UK speciality cheese sector using a postal survey. Then an empirical analysis investigates the propositions of the theoretical model econometrically to establish if there is evidence to suggest that owner motivation does influence their choice of price, product quality and production method.

METHODOLOGY

- Owners dominate all or much of the firm activity given that many are active members of the labour force.
- Decisions on issues such as price, quality and production methods may differ from other industries if owners are active in the production process.
- The paper models the objective of owners by assuming that they want to maximise their revenue, but at the same time, allows for owners to have a degree of satisfaction (utility) from producing their product.
- Three propositions of the theoretical model exist:
 - Utility maximising owners are more likely to use owner-specific production methods and not best practice methods.
 - Utility maximising owners will produce a higher quality product than their profit maximising counterparts in the sector.
 - Utility maximising owners will set higher prices compared to their profit maximising counterparts in the sector.
- Information on owner motivations was collected via a postal survey of the population of speciality cheese producers known at the time of surveying. From this information it was possible to give each owner two weightings. The first weighted the owner based on his or her revenue maximising behaviour. The second weighted the owner based on their desire to seek pleasure from owning a cheese-making enterprise and producing cheese.
- The paper then investigated if the degree of owner motivation towards revenue maximisation and satisfaction from production influences the price, quality and production method used. This is done econometrically.
- The three dependent variables: price, quality and production technique were measured by wholesale prices, the percentage of milk used in the production process from the owner's own herd or flock, and if the cheese was hand-made, respectively. The measure

for cheese quality is endogenously determined. However, the econometric techniques allow for this. A second measure of quality is also used in the analysis: the production time. Older cheeses are assumed to be of a higher quality than younger cheeses. Both measures of quality were scrutinised by an industry expert.

April 2007

Owner
Motivations in
the UK
Speciality Food
Sector

KEY FINDINGS

- Evidence prior to complex empirical analysis suggested that there is systematic utility maximisation in the UK speciality cheese sector. The empirical estimations suggest that a range of motivation types exist across owners within this sector.
- Two empirical models were estimated to explain the choice behaviour of owners in this sector. The first applies the percentage of milk used in production from the owner's herd or flock. The second model repeats the first, but with quality represented as the time the cheese takes to produce.
- Utility maximising owners use traditional production technologies; however, contrary to this result, when the second measure of quality is used in the analysis profit maximising owners as well as utility maximising owners were shown to use such methods.
- Both utility and profit maximising owners were found to produce higher quality cheese in the first model. However, profit maximising owners produce a higher quality cheese. In the second model, utility maximising owners produce a higher quality cheese.
- Evidence suggests that profit maximising owners set lower prices. Comparing both models, in the first model utility maximising owners set higher prices. In the second model, profit maximising owners are found to set lower prices.

CONCLUSIONS

- The findings of this paper support the propositions of the theoretical model of owner behaviour. They also have implications for the UK speciality cheese sector.
- Contrary to traditional neoclassical models, owners can influence the product characteristics supplied to the market through pleasure in production.
- Those owners that demonstrate utility maximising behaviour towards their product may well, as a result, increase the supply, thus benefiting producers as well as consumers.
- Instead of not entering the sector, utility maximising owners will enter even when they have more profitable motivations as they aim to maximise utility beyond profit.

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (CCP Working Paper 07-4) and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

ABOUT THE AUTHOR

- **Andrew Bugg** is a part-time Research Associate at CCP while he completes his PhD. He is interested in the Economics of Farmers' Markets and Speciality Food Production.