

## Consumers' Taste and Export Pricing: Evidence from the Food Processing Sector

*BATModel Deliverable 3.2 –*

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### HIGHLIGHTS

- Analyses the impact of consumer taste and product quality on export pricing and sales.
- Utilizes firm-level data from Italy, France, and Hungary.
- Finds that higher consumer taste and product quality lead to higher mark-ups and export success.
- Highlights the heterogeneity in cost efficiency, product quality, and consumer preferences across firms and destinations.

This brief summarizes the key findings and implications of the study on the role of consumer taste and product quality in shaping export pricing and sales behaviour in the food processing sector across Italy, France, and Hungary.

Understanding and adapting to consumer taste and product quality significantly influence export pricing strategies and success. Firms that tailor their products to meet consumer preferences in different international markets can achieve higher price premiums and improved export performance.

### INTRODUCTION

This study aims to understand why firms charge different prices for similar products exported to different destinations and what factors explain the variation in export sales. It examines the impact of demand-side factors (consumer taste) and supply-side factors (product quality and cost efficiency) on firms' pricing and export behaviour. The analysis focuses on the food processing sectors in Italy, France, and Hungary, providing valuable insights for firms and policymakers to enhance export strategies and foster competition.

The study uses firm-level data from the food processing sectors in Italy, France, and Hungary. It employs a variety of econometric models to estimate the impact of consumer taste, product quality, and cost efficiency on pricing and export performance.

Key methods include:

- Estimating demand functions to measure consumer taste and product quality.
- Using instrumental variables techniques to address endogeneity between export sales, pricing behaviour, and firm fundamentals.
- Applying log-log specifications and control functions to account for market size, competition, and costs.

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## MAIN RESULTS

### Italian Food Processing Sector:

○ Variations in firms' pricing behaviour, measured as mark-ups over marginal cost, are significantly influenced by product quality and consumer taste.

○ Firms increase their product quality and mark-ups in markets with higher consumer taste to enhance profitability.

### French Food Processing Sector:

○ Significant heterogeneity exists in cost efficiency, product quality, and consumer tastes across firms and export destinations.

○ Consumer taste and product quality are critical for export success, explaining a larger portion of export revenue variation than marginal costs.

### Hungarian Food Processing Sector:

○ Firms with higher mark-ups are more likely to participate and persist in export markets.

○ Mark-ups are generally higher for exporters than non-exporters, indicating that successful export participation can lead to increased pricing power.

## POLICY RECOMMENDATIONS

- 1. Support Market Research:** Encourage firms to conduct detailed market research to understand consumer tastes in different countries, helping them tailor products and pricing strategies.
- 2. Promote Product Differentiation:** Policies should support innovation and product differentiation to capitalize on varying consumer tastes and enhance competitiveness in international markets.
- 3. Enhance Export Support:** Provide targeted export support services, including market entry assistance and consumer preference analysis, to help firms navigate foreign markets effectively.
- 4. Balance Trade and Competition Policies:** Maintain a balance between promoting exports and ensuring domestic competition to prevent excessive mark-ups that could harm consumers.