

Product Labelling: a new marketing tool?

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The purpose of this paper is to raise the question whether product labelling is only a marketing tool or whether it really contributes to the customer's purchase choice by giving out valuable information. In the following sections I will analyse the two main types of product labelling: the own private labelling and the third party labels. I will come to talk about the impact of labelling on the customer and the main ideas behind product labelling. Moreover, I will elaborate on the Fair-trade mark as well as organic or „green“ labelling by stating what the basics idea behind such labelling are and how it is used by companies in reality.

1. Introduction

a. Nowadays situations

Over decades, the awareness about environmental, health and social issues has risen worldwide. First, the climate change has become a highly debated issue: It is predicted that not only more floods, droughts and storms will occur more often and will become stronger, but also that it will have a detrimental effect on the environment and people's lives in many countries. Therefore, customers tend to attach more importance to being environmentally friendly which simultaneously increases pressure on companies for example to reduce their CO₂ emissions, start recycling or establish environmentally friendly products.

Second, we also find more consumers' concerns about a healthy lifestyle: Eating healthfully often implies purchasing only biological products and keeping away from products treated with pesticides or even being genetically engineered. Knowing that a healthful diet will lower the probability for many diseases, customers are often willing to spend more on for example organic food.

Third, due to the risen awareness for social issues particularly in developing countries, not only NGOs and governmental organisations try to establish good labour standards and employment guidelines, but also individuals want to contribute to a sustainable global development. This is for example done by donating.

Meanwhile those social trends are becoming more important for individuals, we find many businesses pressured to also establish own social initiatives as to remain a good choice among customers and investors.

Key terms as *business ethics* and *corporate social responsibility* were established to ensure sustainable business practises. In the corporate social responsibility (CSR) report, nowadays almost all multinationals reveal and underline their beneficial projects to health, environment or human being. Along with this trend to highlight

certain business contributions, also the health, environmental or social advantages of products are underlined by product labels.

The main idea of product labelling is to provide more information to customers about certain positive attributes of commodities. However, many times labelling is not informative but either ambiguous or false. Therefore, the main question I would like to raise is whether increased labelling is really helpful for the consumer's choice or whether it should be only seen as a marketing tool to influence consumers in their purchasing behaviour.

In the following section I will introduce labelling and in section three I will then talk about the fair trade initiative and how it affects customers. Moreover, I will come to talk about eco and organic labelling and how it is used. To conclude, I will summarise whether the customers usually benefited from the labelling by being able to choose the right product or whether labelling was rather misleading for the customer.

2. Labelling

Labelling has always been important as a tool for product recognition. In the last decades, the trend to use labels as a marketing tool increased tremendously as labelling showed a great influence on the consumer's purchasing choice. The marketers' aim was first to let consumers recognize certain products or brands they have been buying before and then tie the customer to the product. With respect to this, famous brands as Coca Cola or Kleenex were established and have become generic brands well known all over the world.



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a. Labelling to describe a product

Many product labels imply a certain characteristic, for instance a healthful effect on the consumer. They are supposed to provide an informative base about the product to the customer. Nevertheless, many times the given information can also misguide the customer. Accordingly, Caswell and Mojduszka (1996) have found that the majority of customers was rather confused about the green terminologies they found on product labels. They did not feel that those labels helped them to make a proper choice.

We have to recognize several groups of labelling shortcomings. First of all, labels can simply be wrong in their statement. Even though a certain characteristic is claimed, it is not found to be. A good example for false labelling is Coca Cola's *Dansani* water. In 2004 the company released *Dansani* a bottled water, which was claimed to be "as pure as bottled water gets" on its label. However, *Dasani* was found to be pure tap water in a bottled form. Moreover, the water was withdrawn from the market due to health risk issues later on.

A second difficulty the customer might face is ambiguity in terms of the information obtained through the label. Many companies use certain terms or signs on their labels. Those may raise the consumer's expectations: This was for example the case with Nestlé's breast milk substitutes which were labelled with pictures of baby to advertise a modern way of feeding babies. In spite of the label, the baby milk was proven to be highly dangerous to the baby's health.

Finally, labels can also be sometimes lacking crucial information. In Asia, Greenpeace found genetically modified components in Nestlé's milk substitute. These were, however, not mentioned on the label.

Consumers therefore perceive that those terminologies on labels as misleading with reference to their purchase choice.

b. Labelling to ensure production or product standards

More recently, the word "label" was increasingly altered in meaning and usage: It has been ascribed to independent, third party labels providing information about product attributes in terms of environmental, health or social standards which apply for either the manufacturing process of the given product or the product itself. The purpose of this kind of label is to not only to inform the consumer about the product but also to ensure the correctness of the information given.

Global organizations as Fair Trade for instance require an independent, accredited control of all manufacturing processes of the product bearing the label. A certain company, thus, has to apply to the organization, providing secured third party control for their production processes, even among their suppliers. If this condition is fulfilled and the company's application has been accepted, the label can be used.

Currently, we find a steadily increasing number of different labels ranging from organic labels concerning the product's healthiness for the consumer, environmental labels regarding the environmental friendliness of manufacturing processes up to labels ensuring fair labour standards of production. A private label's meaning and requirements to be used, however, differ very much. Therefore, the customer faces the difficulty to distinguish between reliable and not trustworthy labels: Many times almost no conditions are bound to the usage of a certain label even though it appears to be as promising as other labels in terms of the product's positive attributes.

3. Fair Trade

a. Overview

Fair Trade is an international, non governmental organisation which is working on providing standards for the manufacturing. The company is acting on a worldwide basis, containing different labels and subdivision. The main goal is to ensure fair working conditions within the supply chain of a company. These includes the banning of child labour, wages covering a decent living in the given country, regulated working times, healthy and secure working conditions as well as a standard social care for the workers. The idea of Fair Trade is not only to improve the working conditions especially in third world countries but also to increase the customers' awareness on possible labour exploitation when purchasing.

A company can apply directly to the NGO to become accredited to use the Fair Trade sign. In this process it needs to find an acceptable third party to guarantee the constant surveillance of the total production. This control will prove to Fair Trade that the company sticks to the Fair Trade standards and thus, it may use the label on its products.

b. Global awareness

Fair Trade is becoming more and more popular worldwide. The organisation reported that customers spent 1.6 billion Euros on Fair Trade labelled products in 2006, which is 41% more than in the previous year. In just one year the fair trade labelling has increased by 93% on cocoa products 53% on coffee, 41% on tea as well as 31% on bananas. Furthermore, many retailers have increased their Fair Trade product assortment: Marks and



Robusta Coffee Market 1986 - 2006: Comparison of Fairtrade price and London LIFFE price



NB The Fairtrade minimum price is 101 cents/lb + 5 cents/lb premium. When the LIFFE price is 101 cents or above, then the Fairtrade price = LIFFE price + 5 cents.
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Spencer for instance changed its own tea and coffee assortment into Fair Trade labelled products in 2006. In view of the increasing popularity of Fair trade certified products, many farmers better living conditions. The amount of money from selling fair trade coffee is significantly above the level of normal coffee beans, which lets famers sustain a decent living without being exploited.

Cases of avoiding straight forward fair trading:

i. Starbucks

As a global chain, Starbucks experienced an increasing social pressure in recent years to also introduce Fair-trade coffee. After a global debate evoking numerous street demonstrations and critics over years, Starbucks decided to offer fair traded coffee in all their stores worldwide. From then on, the amount of Fair trade coffee offered has risen significantly: In 2004 the company bought 4.8 million pounds of Fair trade coffee, whereas the amount more than doubled in 2005 rising up to 11.5 million pounds. Moreover, Starbucks accounts for about 10% of all the Fair-trade coffee imported to the US. This change to Fair trade coffee at Starbucks now allows

concerned customers to be certain of supporting instead of exploiting farmers in third world countries when drinking coffee.

Nevertheless, we find that Fair-trade coffee only comprises about 6% of all Starbucks coffee sold worldwide according to *Organic Consumers*. Starbucks relies on a system, where Fair-trade coffee is not used if not explicitly asked for it when ordering.

ii. Nestlé

Nestlé belongs to the four major global coffee firms next to Sara Lee, Proctor and Gamble and Kraft. It launched its own fair trade coffee brand in 2005, offering instant fair traded coffee. However, this step was still seen critically by many parties. The World Movement campaign called it "an attempt to cash in a growing market" instead of "the beginning of a fundamental shift in Nestlé's business model." One reason for a common critical view of the fair trade usage was Nestlé neglecting to disclose statistics on how much Fair traded coffee was bought and what percentage this would include within their coffee segment (The Guardian, 2007). Hence, many organizations assumed it to be only a PR move instead of an approach to an ethical business culture, so that Nestlé could still acquire the vast majority of their approximately 750,000 tonnes of coffee beans at a significantly lower price level.

4. "Green labelling"

a. Examples of "green labels" and how they work

The term "green" is frequently used; however, it is not explicitly definable. Mostly it is attributed to either environmentally friendly, healthful or organic products or processes. As this definition is very broad and most businesses want to claim themselves to be "green" in their production, they often use labels to indicate their or their products' positive impact on the environment as well as the consumer.

Examples for "green labels" are *ecolabels*. In Wikipedia they are defined as "a labelling system for consumer products (including foods) that are made in fashion to avoid detrimental effects on the environment". Ecolabels are ranging from international labels as the "EU Ecolabel" to private labels as the "carbon-rating" label on all of Tesco's products.

Furthermore, we find an abundance of different organic or biological labels all around the world. Referring to the customer's health, organic labels aim to identify products with a low pesticide level, no genetically modified components and other healthful attributes. Usually, these organic labels are either bound to a country or a supermarket chain.



Organic farming in Europe



b. Shortcomings of green labelling

Since green or environmental labelling is voluntary, it is hard to establish a doctrine which every business sticks to. Therefore, many products are appraised to be for example healthful whereas critical information about potential risks as genetically engineered ingredients is not mentioned. We find certain guidelines which are usually established by each country independently what ingredients and processes have to be revealed; yet, companies may find ways to circumvent certain rules or they may just neglect them. This again raises the question of whether businesses only use labelling as a marketing tool.

i. Genetic engineering

In some countries genetically engineered ingredients have to be mentioned on the product, in others they do not – still, in both types of countries they are often found not to be especially outlined on the product label. This was the case with Nestlé's baby milk as well as for example with the Procter and Gamble's Pringles potato chips. Hence, customers purchase those products without being aware of potential risks.

ii. Nanotechnology

Being almost the same case as with genetic engineering, Nanotechnology is often used in the manufacturing of products although the customer is not informed about it on the products' labels. As with genetic engineering, Nanotechnology is not proven to be unhealthy, but it is suspected to have a rather negative impact on the environment and it might be toxic to the consumer. Yet, main global manufacturers as Nestlé, Kraft, Cadbury and Unilever continue exploring this kind of technology. Nanotechnology is moreover used in many cosmetic products by L'Oreal or L'Oréal without any information given to the customer about it.

As we have seen, Nanotechnology and genetic engineering are often not mentioned on labelling even though they may constitute a threat to health. Thus, businesses just adapt the given information to customer on labels by leaving out negative attributes. This strategy will lead to higher sales as customers perceive the products as being healthful and good for themselves.

c. Organic labels: The example of Carrefour

Since the customers' preference to buying environmentally friendly products rose significantly, Carrefour, as a global supermarket chain, established its own green label, the *Carrefour Quality Lines* in 1997. All products bearing that label supporting the ecosystems: species and crop variety are protected and also sustainable management of the land is ensured. Moreover, emissions are low and the usage of water is controlled in the sense as not to overuse it or pollute it. Finally, the customer is certain to buy a product with no or only low chemical treatment which is making the product more healthful.

Since 1995, Carrefour has also changed their policy with regard to packaging. It became more environmentally friendly based on three main alternations: packaging weight was reduced, all packaging became recyclable and substances presenting a potential environmental risk were removed.

Regarding the launch of their own environmental label, consumers now could decide to contribute to sustainability themselves. In addition, they knew that Carrefour was concerned about the environment with respect to packaging and their label. It is probable that because of those changes many environmentally-conscious customers were attracted to go shopping in Carrefour.

5. Conclusion

In this study many examples of labelling were pointed out. First the descriptive labels established by the company itself were introduced: Those were giving out information about the product, mostly praising the commodity to contain just positive attributes. As examples for misusing private labelling Coca Cola's water Dansani and Nestlé's Baby milk were taken. It was clear in both cases that due to the lack of established norms most product labels could be promising a certain positive product attribute without any prove of it to the customer. Moreover, the descriptive labels are often leaving out crucial information about other, rather negative product attributes. Names, pictures, terminologies or subtitles praising the products are hence often misused or confusing and should not be relied on very much.

In the second part of the study, I elaborated on the Fair Trade label as a third party label. As this kind of labels is established and its usage is usually strictly monitored by the independent organisation, customers can be assured of its validity. Nevertheless, in view of the almost infinite range of different labels, customers have to inform themselves about whether it is really a label controlled third-party or whether it was just made to look

similar to a third party label. Furthermore, they would have to research what conditions the label is based on as they vary significantly among different independent label organisations. Still, if the consumer is informed enough, a third party label may give many reliable information helping the customer to make his purchase choice.

Finally, I came to talk about eco- and organic labels were. Eco- and organic labels belong to both – private and third party labels. Especially those private labels established by companies themselves, as the one Quality Line label Carrefour was using, give much information to consumer. As I found no example of abuse of own label lines in the data provided by Covalence, it would be probable that most data provided on those labels will be true. However, a third party label will certainly be more reliable for customers.

In view of the different label types, we see that labelling is surely used for marketing as mostly positive attributes are pointed out to the customer. However, third party labels and company established labelling procedures as the Carrefour Quality Lines are not only based on marketing campaigns but also provide also a trustworthy information for the customer. In conclusion, labelling on one hand is a marketing tool, however, on the other hand if the customer has informed himself about labels, he will find many types of labelling as really helpful to make his purchase decision.

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