

**LOYALTY OF CONSUMERS TO FOOD IN LATVIA**

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**Abstract.** Food is a specific group of products, the choice of which by consumers is affected by a number of various factors. In the consumer basket in Latvia, food expenses are one of the key items, and a large role in the consumer's choice of food is played by the price of products and related factors. For this reason, it is important to ascertain the loyalty of consumers to particular producers and the factors affecting it, so that domestic food producers could increase their sales and their competitiveness on the market of Latvia. The present research uses the data of surveys of consumers and retail stores for the period of 2010-2013 and concludes that higher consumer loyalty to certain brands or producers can be observed for several groups of food products, while the key factors affecting the loyalty of consumers are the taste of food, whether the product's raw materials are natural, and a lower price.

**Key words:** food, consumer behaviour, consumer loyalty, competitiveness.

**JEL code:** D10; L66

**Introduction**

The choice of food by consumers is a complicated issue, which is determined by many and various factors. The behaviour of consumers in the food and beverage sector can sharply change, thus, affecting the efficiency of performance of enterprises engaged in this sector. It is important to gain higher loyalty of consumers to domestic food products to ensure higher competitiveness of food producers of Latvia. Therefore, it is urgent to conduct studies on the key factors that determine the loyalty of consumers to particular producers and products.

The **research aim** is to identify the loyalty of Latvia's consumers to particular food brands and the factors affecting it.

To achieve the aim, the following **research tasks** were set:

- 1) to analyse the key indicators of Latvia's food industry;
- 2) to examine the factors affecting the behaviour of consumers in the choice of food products;
- 3) to assess the loyalty of Latvia's consumers for various groups of food products.

To solve the research tasks, the following methods were applied - analysis, synthesis, statistical analysis, the logical and constructive. To research the topic, the common indicators of food processing industry were analysed using data of the Central Statistical Bureau (CSB) of Latvia and the Ministry of Agriculture (MoA). The data collected within the project "Comparative Analysis of Competitiveness Indicators of the Latvian Food Industry" (CACI) funded by the Ministry of Agriculture of Latvia were also used in the present research.

**Characteristics of food production in Latvia**

The food and beverage industry is one of the most significant and dynamic manufacturing industries. The food industry is vital for any country and is the largest among the manufacturing industries in the

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Baltic States. This diverse industry is a significant exporter, and its final products are competitive both in the domestic and in the international markets (Upite I., 2012). The production of food and beverages is the largest manufacturing industry in Latvia in terms of output and jobs.

Table 1

**Main indicators of the food processing industry in Latvia for years 2006-2012**

Indicators	2006	2007	2008	2009	2010	2011	2012
Added value in food processing industry, mln EUR	338.6	426.3	500.7	526.9	534.7	589.1	605.4
Value of sold production in food processing industry, mln EUR	1224.1	1369.0	1536.3	1239.3	1248.9	1365.4	1407.7
<i>Increase from base year, %</i>	-	<i>11.8</i>	<i>25.5</i>	<i>1.2</i>	<i>2.0</i>	<i>11.5</i>	<i>15.0</i>
Share of export in food processing industry, %	24.3	24.0	24.2	23.8	27.5	30.3	33.9

**Source: authors' calculations based on the data of the CSB and the Ministry of Agriculture, 2013**

The industry, to a great extent, focuses on the domestic market, where 2/3 of its output is sold. As the domestic demand decreased during the crisis, the output also considerably declined. Although the proportion of exports in the output of the industry rose over the recent years, the industry's recovery was quite slow, as the demand in the domestic market increased at a moderate rate (Ministry of Economics, 2013). Accordingly, it is of great importance to strengthen and increase the loyalty of Latvia's consumers to domestic products.

#### **Factors affecting the choice of food products**

Consumer behaviour is an individual's reaction on various factors, which directly depends on the individual's personal characteristics, psychological and emotional state, experiences, and disposable resources, and on the qualities and price of a good (service) (Andersone I., 2012). The loyalty of consumers may emerge as an entirely voluntary devotion at the consciousness level, based on trust, which is characterised by conscious behaviour of consumers, reducing the possibility the consumer leaves the vendor of goods or services. It is usually based on the customer's satisfaction with the products consumed before. As loyalty emerges, the consumer believes that every time he/she comes back, the product, its quality, and service will be the same, most satisfactory, or even better (Griffin G., 2002).

Nowadays, the food industry's enterprises face challenges associated with the rising standards in the fields of food safety and sustainability, changes in the understanding of healthy diets, the increasing demand for domestic products, the ageing of the population and related changes in consumption as well as the rising loyalty to private trademarks. Most authors, when defining the factors affecting the choice of food products, outline the following key groups of factors (Table 2).

The price and quality of products were recognised as the key factors affecting the choice of consumers. The term quality is referred to as a set of characteristics that involve the food's sensory properties and whether it is fit for consumption (taste, aroma, ingredients, freshness, harmlessness, healthiness etc.). The understanding of quality changes depending on the consumer's individual wishes and notion of quality, yet, such an explanation of the term allows finding out what characteristics of food products – qualitative or economic – are dominant.

Table 2

**Factors affecting the choice of food products**

<b>Groups of factors</b>	<b>Factors</b>
Biological factors	Hunger, appetite, taste
Economic factors	Price, income, availability
Individual factors	Education, skills (incl. cooking), time available, age
Social factors	Culture, family, fellows, eating habits
Psychological factors	Mood, stress level, sense of guilt
Marketing and advertising	Advertisements, communication, discount sales, loyalty to brands
Attitude to one's health	Dietary products, weight control, food safety, food preservatives and dyes, genetically modified commodities
Sustainability	Organic food, local products, packaging, fair trade

**Source: authors' construction based on the data of the European Food Information Council, 2011; the International Markets Bureau, 2011**

Surveys of consumers in the USA and studies conducted by the European Commission suggest that the main factor affecting the choice of food, which is a specific group of products, by consumers is taste (quality), and only then followed by price. In the EU Member States, on average, 96% of consumers consider quality an important, while 65% – a very important – factor in their choice of food; the role of price is less important (91% and 54%, respectively) (The International Food Information..., 2011; TNS Opinion & Social, 2012).

In contrast, studies conducted in Latvia indicate that the key factor is the price of food products, which is determined by the income level of Latvia's population and the household consumption pattern. In 2010 in Latvia, food expenses as a proportion of total expenses were the third highest in Europe (Kalnberzina K., 2011). In 2005, the key factor determining the choice of food by consumers was taste, and price was the second most important factor, while in 2011, the role of price was emphasised by 88% of respondents (when purchasing necessities of life, 53% always pay attention to prices, while 35% do it in most cases), and it indicates considerable changes in the market (SKDS, 2011).

Yet, the behaviour of modern consumers is complex, as they are interested not only in the taste and price of food products but also in the origin of food, the effects of food production on the surrounding environment, the quality of raw materials used as well as in the effect of their purchase decision on producer incomes. In consumer surveys, the term sustainability usually refers to various processes being friendly to the surrounding environment and the economy, for instance, domestic organic food products packed in environmentally-friendly packaging (biodegradable or multiple use packaging) and produced in accordance with fair trade practices. There are many discussions about the effects of sustainability factors on consumer decision-making. Yet, regardless of the choice of food products, consumers expect enterprises to actively engage in tackling environmental protection, economic, and social problems, thus, making the consumer's decision-making easier (International Markets Bureau, 2011).

The place of origin of food products is one of the sustainability factors, and the formation of consumer loyalty is an essential precondition for ensuring the competitiveness of domestic food producers. On average, 55% of consumers in the world believe that purchasing domestic food is an important or very important factor for them. Yet, studies show that only 28% of consumers really buy mainly domestic food

and beverages. Such discrepancies are characteristic of consumer surveys, as they indicate a difference between the ideal purchase imagined by consumers (consumers believe that it is important to support domestic producers) and their actual action when there is no motivation to reject the favourite imported products. One more reason for such a tendency is a psychological one, as consumers believe that they are sufficiently significant to make a considerable influence on general purchase trends (International Markets Bureau, 2011).

According to the study by the European Commission, the place of origin of food is an important factor affecting the choice of products for more than half of respondents in all the EU Member States, except the Netherlands. In the EU, on average, 71% of consumers consider the place of origin of products an important factor, while 34% regard it a very important factor; in Latvia, the loyalty of consumers to domestic products is higher, 77% and 45%, respectively (TNS Opinion & Social, 2012).

It has to be noted that consumers, when answering the question about whether the country of origin is important to them, often associate this question with particular producers and products rather than the country as a whole. Therefore, the *country of origin is important if viewed through the producer prism*.

The effects of food product brands or producers on food purchase decisions considerably differ among the EU Member States. The quality, price, and place of origin of food are important to the majority of the EU's population, while their attitude to a brand or producer is much more different among various Member States. The brand as a factor affecting the choice of food is more important in Poland and Italy (66% and 68%, respectively, of the consumers considered it an important factor). An opposite trend could be observed, for instance, in the Netherlands, where only 21% of respondents mentioned this factor as important. In the EU Member States, on average, 47% of consumers believe that the brand is important, while 15% - very important; however, the loyalty of consumers to particular food producers is higher in Latvia, 55% and 21%, respectively (TNS Opinion & Social, 2012).

After analysing all the groups of factors affecting the choice of food products, one can conclude that a decision to buy a particular food product is made owing to the complex interaction of many factors that **relate to the individual's personal traits, experiences, and national traditions as well as psychological reaction on food**.

### **Loyalty of consumers to food products**

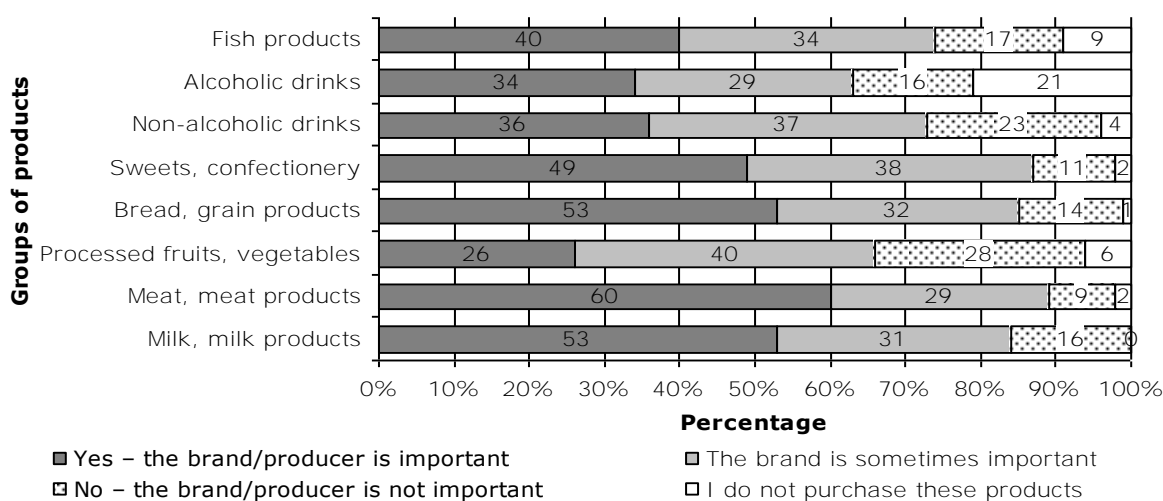
Regardless of the fact that the place of origin of food is important or very important for a great deal of Latvia's consumers, but there are also other factors that influence consumer choice. In 2010, only 25% of consumers mentioned the producer and 23% - the country of origin - as one of the three most important factors affecting the choice of food (SKDS, DnB Nord Barometer of Latvia No 24, 2010), thus, proving an assumption that the place of origin of products is often associated with particular producers. However, a survey conducted in 2011 showed that 35% of the population pay attention to where the product is produced and prefer products produced in Latvia. A similar proportion of the population, 33%, believe that even though the country of origin is an important factor, other factors (price, ingredients, and quality) are even more important (SKDS, 2011).

The survey of consumer loyalty to domestic products showed that in 2010, 67% of Latvia's population chose only products of domestic enterprises when buying dairy products. More than half, 56% of respondents did the same regarding meat and its products, 36% - vegetables and their products, and 33% - flour products. A slightly smaller number, i.e. 28% of the population admitted that they chose domestic confectionary products, 22% - fish and their products, 17% - flour and sugar confectionary

(biscuits, chocolate, etc.), and 16% - fruits and their products. As regards the most often preferred imported products, 40% of the population mentioned imported fruits and their products and 26% - alcoholic beverages. In total, 19% of the population did not prefer any group of imported food products (SKDS, 2010).

Although, in general, the choice of food in Latvia is mainly affected by the ratio of price and quality, it is important to ascertain the extent of loyalty of consumers to particular brands or producers for various groups of food products. This information would allow domestic food producers to identify the groups of food with greater potential for attracting long-loyal consumers.

The survey conducted within the present research indicates that, in general, the brand or producer is important when shopping for food products (Figure 1). The brand plays the greatest role in the consumer's choice of meat and meat products, as the brand is important to 60% of respondents, while to 29% - sometimes important.

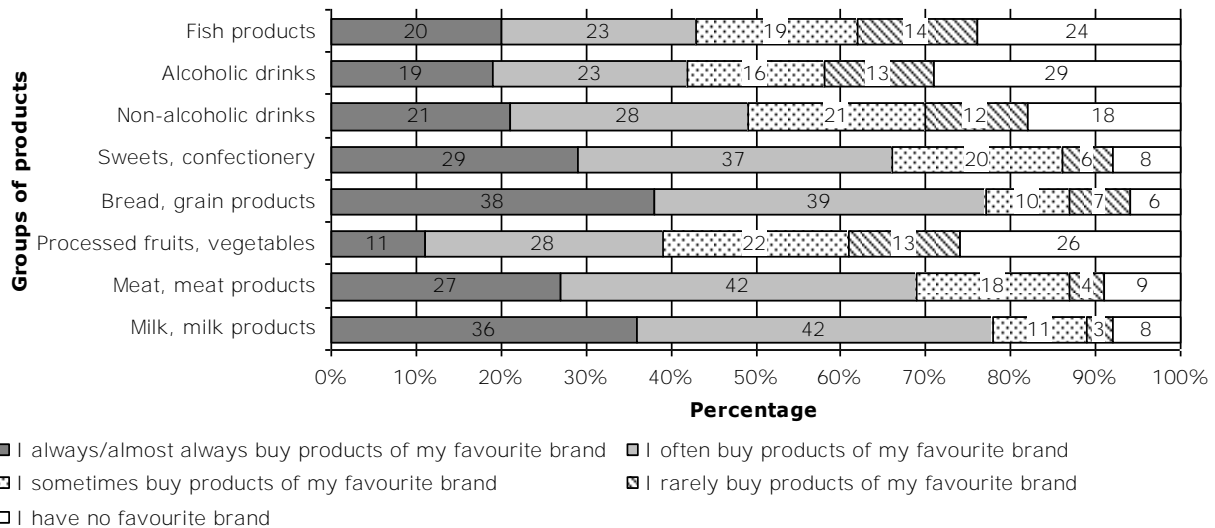


Source: authors' construction based on the survey within the CACI project, 2013

Fig.1. Choice of the brand of food broken down by group of food products in Latvia in 2013

For the groups of dairy products, bread and grain products as well as sugar and flour confectionary, the role of brands in the consumer's choice of food is equally important. The brand plays the smallest role in the choice of processed fruits and vegetables (the brand is important to 26% of respondents, while 40% consider it important only sometimes). In the consumer's choice of non-alcoholic and alcoholic beverages, the role of the brand is relatively low (the brand is important to 34% and 36%, respectively, of the respondents and sometimes important to 37% and 29%). In the choice of fish products, the brand is important to 40% of the survey's participants, sometimes important – to 34%, while 17% admitted that when shopping for fish products, the brand or producer is not important to them. To ascertain the consumer behavioural loyalty to favourite food products, the survey included a question about the regularity of buying favourite food products, broken down by group of products (Figure 2).

According to the survey results, the highest behavioural loyalty is observed for the groups of bread and grain products and dairy products, as 38% and 36%, respectively, of the respondents pointed that, when buying products of these groups, always or almost always choose the products of their favourite brand, while 39% and 42% do it often. Relatively, high behavioural loyalty is observed for the groups of meat products and sweet and flour confectionery.

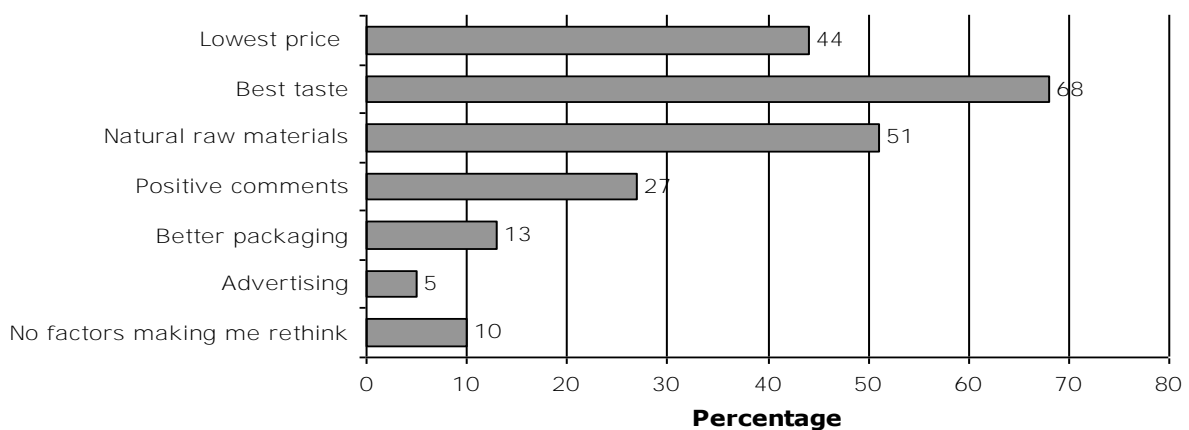


Source: authors' construction based on the survey within the CACI project, 2013

Fig.2. Consumer behavioural loyalty to food products broken down by group of food products in Latvia in 2013

In contrast, the lowest one, according to the survey, is specific to the groups of processed fruits and vegetables and fish products, as only 11% and 20%, respectively, of the respondents always buy products of their favourite producers, and 28% and 23% do it often. The highest proportion of the respondents who have no favourite producer or brand (22% and 19%, respectively) is observed for the groups of processed fruits and vegetables and fish products.

Of the respondents, 21% said that they had no favourite brands for the group of alcoholic beverages, yet, such a reply most likely might mean that these people do not consume alcoholic beverages (19% of respondents noted that they do not buy products of the group of alcoholic beverages).



Source: authors' construction based on the survey within the CACI project, 2013

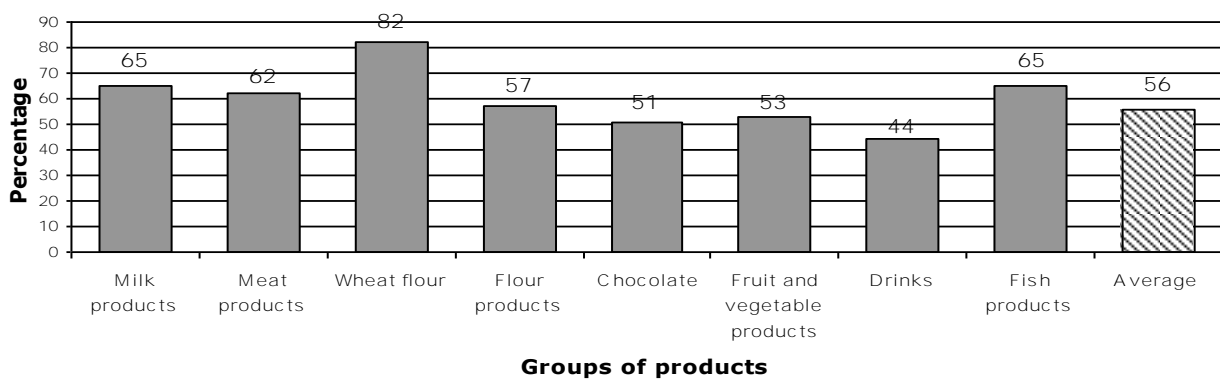
Fig.3. Factors affecting the stability of consumer behavioural loyalty to food products in Latvia in 2013

According to the survey, the stability of loyalty is affected not only by price factors, but also by product quality characteristics. For all the groups of products, the most often mentioned factors that can make the respondent to choose a similar product of another producer instead of the favourite products are better

taste (68% of respondents), natural raw materials used (51%), a lower price (44%) as well as positive comments on the product (27%).

According to the survey, a better packaging and better advertisements are the factors that may least contribute to the shift in the choice of food products by the respondents. Based on the survey results, one can conclude that implementing such a non-price factor affecting the consumer's choice of food products as marketing activities might not lead to the expected result. Given the fact that the consumers are ready to change their consumption habits owing to better taste as well as more natural raw materials used in production, the most effective marketing activities could be product tasting as well as informative campaigns about the product's raw materials and ingredients.

The availability of domestic food at the sales sites is also a significant factor affecting the choice of food that may contribute to or, vice versa, hinder the formation of consumer loyalty to particular food products. Therefore, a study on the availability of products at retail stores was conducted to find out the proportion of domestic products for various product groups (Figure 4.). In total, 10 small self-service stores in Jelgava city and Dobele town and in the municipalities of Jelgava and Bauska were studied by the authors. At these stores, the average proportion of food goods produced in Latvia was equal to 56%. The highest proportion of domestic food products, according to the study, was identified at ELVI stores, followed by the stores of AIBE, VESKO, and LATS. The assortment policy within a retail store network may differ, which is evidenced by the study in which several stores of a retail network were examined by the authors.



*Source: authors' construction based on the survey within the CACI project, 2013*

**Fig.4. Proportion of food products manufactured in Latvia for various food groups at self-service stores in Latvia in 2013**

Among various groups of food products, the highest proportion of domestic goods was observed for wheat flour (82%), while the proportions of domestic products for the groups of fish, dairy, and meat products were similar, ranging from 62% to 65%. The lowest proportion was observed for the group of beverages, which was caused by the low proportion of domestic products for the group of distilled alcoholic drinks.

The study of the assortments of small self-service stores shows that price and other factors have large impacts on the choice of products available at retail stores, while lobbying domestic producers is a policy of only few retail networks.

A greater proportion of domestic goods at small self-service stores might be observed for:

- groups of products with shorter expiry periods (for instance, dairy products);
- products with a high unit weight and a low value-added (for instance, flour, drinking water);
- traditional Latvian products (for instance, rye bread, beer, smoked meat, canned fish);
- products of industries with a historically strong production basis in Latvia (for example, juices, drinking water, beer, canned fish).

For some groups of food products, in contrast, the availability of domestic products is quite limited (for instance, canned fruits and vegetables, lemonades, biscuits, wafers, vodka), and the formation of consumer loyalty to domestic products is accordingly problematic.

### **Conclusions, proposals, recommendations**

1. The consumer's choice of food as a specific group of products is affected by many and various factors of biological, economic, and social nature. Yet, increasingly greater effects are made by the so-called sustainability factors, including consumer loyalty to domestic food producers.
2. Consumer behaviour studies conducted in the world suggest that the main factor affecting the choice of food by consumers is taste and other quality characteristics, and only then followed by price. In contrast, consumer studies conducted in Latvia indicate that the key factor is the price of food products.
3. Given the fact that the food industry is oriented towards the domestic market, it is important for **Latvia's producers to gain and retain the** loyalty of consumers in order to increase their sales and their competitiveness on the domestic market.
4. Consumers often associate the place of origin of food with particular food producers and favourite products; thus, the place/country of origin is viewed through the producer prism.
5. **The loyalty of Latvia's consumers to particular brands or producers is higher than on average in Europe.** According to the survey of consumers, higher consumer loyalty to particular producers as well as higher behavioural loyalty may be observed for dairy products, bread and grain products as well as meat products.
6. For domestic food producers, it is important to gain and retain the loyalty of consumers to the groups of food products that present higher consumer loyalty indicators. In contrast, for the groups of food products with lower consumer loyalty to particular brands, the main competitive advantages relate to a lower price or higher quality.
7. A significant consumer loyalty factor is the availability of products of domestic producers at sales sites, as the highest proportion of domestic goods was observed for the groups of dairy, meat, and flour products at the studied retail stores of Latvia.
8. To stimulate the sales of food products and the formation of consumer loyalty, **product's tasting as well as informative campaigns about the product's raw materials and ingredients have to be held, as they are the main factors that can affect the loyalty of consumers to traditional food products.**



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