

Assessing Green Consumer Behaviour: The Impact Of Premium Pricing On Eco-Friendly Product Adoption

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Abstract

With the world's population growing, we are facing many problems that affect not just the world but also individuals' health. As consumers in today's market, we want something eco-friendly and yet pocket friendly. However, despite this psychology, how is a consumer ready to pay a premium price?

This research aims to explore how green consumers perceive and respond to the premium pricing of eco-friendly products. By analysing existing research papers, examine factors influencing purchasing decisions, including environmental awareness, perceived value, and willingness to pay a higher price. A qualitative methodology was adopted, relying on primary and secondary data collected from various scholarly sources and customer responses. The findings suggest that while eco-conscious consumers are willing to pay a premium for sustainable products, their decision is influenced by trust in the brand, product quality, the theory of planned behaviour, and the marketing strategies of green companies. Additionally, consumers show a higher inclination toward premium eco-friendly products when they perceive tangible benefits, such as durability or health advantages. The study highlights the need for businesses to enhance transparency and communicate the long-term benefits of sustainability to justify premium pricing. In conclusion, while green consumers support sustainability, their willingness to pay a premium depends on multiple factors, making effective communication and value demonstration essential for success.

Key words: Green consumer, Theory of Planned behaviour, Eco-friendly products, Marketing strategies, green companies.

INTRODUCTION

In response to environmental concerns, consumers are shifting their preferences to ecofriendly products. According to PWC report 2024, in 5 years almost 60% of the customer are either willing to shift towards green product or have already done. They are also paying 13.1% more than the actual price of the product. This research seeks to investigate how consumers who prioritize environmental sustainability perceive and respond to premium pricing, as well as the factors that influence their purchasing decisions.

This study attempts to draw on the Theory of Planned Behaviour (TPB) to verify the relationship between attitude, subjective norm, perceived behavioural control, and consumer's intention to pay premium price for eco-friendly products. In addition, this study attempts to extend this theory by adding one more variable, ethical consumption consciousness, to verify its impact on eco-friendly consumption decision. (Sun & Yoon 2022). Consumer often exhibit an "attitude-behaviour gap" when it comes to purchasing green products, meaning that they have a positive attitude towards green consumption, but this does not translate into actual purchasing behaviour. In particular, the price premium associated with green products, which represents a higher cost compared to non-green alternatives within the same category, is recognized as a significant barrier to consumer adoption of green purchasing practices. (Chen et al., 2024) Previous research states that customers are shifting towards green product thus they are ready to pay higher price. In this study we will not just emphasis on the study of customer behaviour but also how a company market green product and how marketing of green product is different from non-green products. In the field of green product marketing, practitioners employ various price presentation strategies to address consumer perceptions of the green premium. Some opt for tactics designed to divert attention away from the green premium, such as reducing the font size of green product pricing, aiming to lessen consumer resistance. Conversely, others choose to highlight the existence of the green premium

by using larger price tags or providing additional price comparison information, using descriptors such as “+40 %” or “an extra \$2.” The strategic presentation of green premium information emerges as a key concern in green marketing practice, with the aim of increasing consumer preference for green products and ultimately reducing the persistent “attitude-behaviour gap.” (Chen et al., 2024)

Understanding these dynamics is essential because they reveal both psychological motivations driving consumer behavior and broader market trends where green consumerism holds significant influence despite facing challenges like economic constraints. In India specifically, although sustainable products currently represent only about 5% of packaged food sales due to barriers like high costs and limited availability, there is substantial potential for growth given that over half of Indian consumers indicate they would be willing to pay more for such items thus this shows potential for green companies to earn more and at the same time this shows that there are consumers who are willing to pay higher but are not actually spending which shows the gap between the ratio of people ready to pay higher and who are actually buying these products. Understanding these dynamics is essential because they reveal both psychological motivations driving consumer behavior and broader market trends where green consumerism holds significant influence despite facing challenges like economic constraints.

This study aims to talk about customer psychology when it comes to green product and at the same time what a company does to attract the customers and convert them in buying their highly priced products. This study is also based on the primary data collected by Gen z consumers who understand environmental concerns better than millennials and are ready to adopt different ways to reduce impact of environmental changes.

Research Problem

1. Premium Pricing Barrier: Despite growing environmental awareness, the higher cost of eco-friendly products remains a significant obstacle to widespread adoption among consumers.
2. Consumer Perception and Response: There is a need to understand how green consumers perceive and respond to the premium pricing of eco-friendly products, and the factors influencing their purchasing decisions
3. Market Strategies Influence: The impact of green companies' marketing strategies on consumers' willingness to pay a premium for eco-friendly products requires further investigation.

Research Objective

1. Examine Consumer Willingness to Pay a Premium for Eco-Friendly Products
Investigate the extent to which Indian consumers are willing to pay a higher price for sustainable products and the factors influencing this willingness.
2. Analyse the Attitude-Behaviour Gap in Green Product Consumption
Explore the discrepancy between consumers' positive attitudes towards green products and their actual purchasing behaviour, particularly in relation to price sensitivity.
3. Assess the Role of Ethical Consumption Consciousness in Green Purchasing Decisions
Evaluate how ethical consumption awareness influences consumers' intentions to buy eco-friendly products, extending the Theory of Planned Behaviour (TPB).
4. Compare Marketing Strategies for Green vs. Non-Green Products
Identify how companies' market eco-friendly products differently from conventional ones and assess the effectiveness of various pricing and promotional strategies.
5. Understand the Buying Behaviour of Gen Z Consumers Towards Green Products
Study the purchasing behaviour of Gen Z consumers, their environmental consciousness, and their role in driving the shift towards sustainable consumption.

Literature Review

Concept of premium price for Eco-friendly products

Eco-friendly products are products that provide low cost and high quality to consumers. Furthermore, eco-friendly companies are viewed as sustainability-oriented companies, which manufacture products that, using resource-saving methods, minimize environmental pollution throughout the entire process of

production. (Albino et al., 2009) A premium price refers to a price set higher than the standard or average market price for similar products. Companies charge a premium price when they believe their product has superior quality, unique benefits, brand value, or sustainability features that justify the extra cost. In the case of eco-friendly products, the premium price covers factors like sustainable sourcing, ethical production, certifications, and reduced environmental impact. Companies set a premium price for eco-friendly products by considering factors such as production costs, consumer perception, and market positioning. Since sustainable materials, ethical sourcing, and green certifications often increase manufacturing expenses, businesses use cost-based pricing to cover these additional costs. They also adopt value-based pricing, determining how much consumers are willing to pay based on the product's perceived benefits, such as environmental impact, durability, and health advantages. To justify the price, brands employ psychological pricing strategies, such as highlighting sustainability efforts, using comparison pricing, or positioning the product as a luxury or exclusive item. Market segmentation plays a crucial role, as companies target environmentally conscious consumers who are more likely to pay extra for sustainable options. Additionally, government regulations, tax incentives, and competitive analysis influence pricing decisions. By strategically balancing these factors, companies establish a premium price that not only reflects the product's eco-friendly attributes but also aligns with consumer demand and willingness to pay.

Theory of Planned behaviour (TPB) TPB is a social psychology model widely used to predict and understand human behaviour in various contexts, including consumer behaviour toward environmentally friendly products (Gusmão & Anisah 2024) The TPB comprises three main components: attitudes toward behaviour, subjective norms, and perceived behavioral control (Ajzen, 1991). Attitude refers to an individual's evaluation of a particular behaviour, which can be a positive or negative judgment based on their beliefs about the outcome of that behaviour (Ajzen, 2020). Subjective norms reflect an individual's perception of social pressure or the expectation of significant people around them to perform or not perform certain behaviours. Perceived behavioral control refers to the extent to which an individual feels capable of performing such behaviour, which is influenced by past experiences and anticipation of obstacles. (Gusmão & Anisah 2024) The Theory of Planned Behaviour (TPB) is closely linked to consumers' purchasing decisions regarding eco-friendly products, as it encompasses three key components: attitude, subjective norms, and perceived behavioral control. Attitude plays a crucial role in shaping consumers' positive or negative beliefs about a product. When individuals hold a strong pro-environmental attitude and perceive purchasing eco-friendly products as a meaningful way to contribute to sustainability, they are more likely to develop an intention to buy, even at a premium price. Subjective norms influence purchasing behaviour through social expectations and peer influence. Consumers, particularly Gen Z, may experience peer pressure that affects their purchasing choices, sometimes leading them to buy products they do not genuinely desire but perceive as socially or personally beneficial. Conversely, individuals who recognize that eco-friendly products offer both environmental and personal benefits may exhibit a stronger willingness to pay a higher price. Lastly, perceived behavioral control significantly impacts purchasing decisions, as consumers often associate eco-friendly products with health benefits and higher trustworthiness. Concerns over the safety and reliability of non-green products further reinforce the shift toward sustainable alternatives, encouraging consumers to pay a premium for eco-friendly options. Thus, TPB effectively explains the psychological and social factors driving consumer preferences for sustainable products.

Marketing Strategies of Green Companies The first definition related to Green Marketing dates to 1976, when Hennion and Kinnear highlighted that Ecological Marketing was *"concerned with all marketing activities that have served to help cause environmental problems and that may serve to provide a remedy for environmental problems"* This definition clearly highlights how Green Marketing is central for cleaner production and corporate sustainability. (Dangelico & Vocalelli, 2017) Companies adopt various strategies to demonstrate their commitment to green marketing, such as using eco-friendly packaging, sustainable raw materials, and energy-efficient production methods. Many brands obtain green certifications like FSC (Forest Stewardship Council), USDA Organic, or Energy Star to validate their sustainability claims. Additionally, businesses engage in cause-related marketing, such as pledging a portion of their profits to environmental conservation or running carbon offset programs.

Transparency is another key aspect, where companies provide life-cycle assessments and clear labelling (e.g., "100% biodegradable" or "Made from recycled materials") to build consumer trust. Effective green marketing not only enhances a company's brand image but also attracts environmentally conscious consumers, fostering long-term loyalty and competitive advantage in the market which allow company to charge premium price thus consumer be ready to pay higher. India has in fact demonstrated a serious commitment towards environmental protection by bringing strict legislations and strategies to achieve environmental objectives, such as, Ecolabelling also known as 'Eco mark' and disclosing more environmental information like LEED certification etc. This Eco-labelling helps a consumer to buy product for which he has developed trust. A trusted label product will increase the market share of the product and impact the business performance. (Ranjan & Kushwaha, 2017) Buying Behaviour of Gen z over millennials Generation Z are the individuals born between the mid-1990s and early 2010s. According to a report by Boston Consulting Group and Snap Inc., Gen Z comprises approximately 26% of India's population, amounting to around 377 million individuals. India being a country of youth, young consumers have taken initiatives to reduce environmental problems. Young consumers who are ecologically active and aware can prove to be of immense help in reducing environmental concerns. (Ranjan & Kushwaha, 2017) Generation Z is shown to be more open-minded and culturally aware than the other, older generational cohorts, as a result of its constant online presence as a digital native and growing up in the VUCA world. An international study of Generation Z noted that this cohort is more involved in different types of activism—Gen Z is tuned for voluntarism and activism, cares about improving the world and actively chooses brands that work to make the world a better place. Therefore, brands that emphasize health and well-being could prevail among new generation consumers in times of pandemics. Generation Z is constantly active in the online space by sharing, co-creating, reading, checking, comparing, analysing and evaluating options, information and ideas to ensure they are making the most out of the whole daily experience (Nikolić et al., 2022) Gen z is more open to change and therefore green companies try to attract these consumers using different social media platforms. As compared to millennials, gen Z are more inclined to pay higher price as they care more about their health and their surroundings.

Hypothesis

1. Consumer Willingness to Pay a Premium for Eco-Friendly Products
 - H_0 (Null Hypothesis): Consumers are not willing to pay a significant premium for eco-friendly products.
 - H_1 (Alternate Hypothesis): Consumers are willing to pay a significant premium for eco-friendly products.
2. Attitude-Behaviour Gap in Green Product Consumption
 - H_0 : There is no significant gap between consumers' positive attitudes toward eco-friendly products and their actual purchasing behaviour.
 - H_1 : There is a significant gap between consumers' positive attitudes toward eco-friendly products and their actual purchasing behaviour.
3. Role of Ethical Consumption Consciousness in Green Purchasing Decisions
 - H_0 : Ethical consumption consciousness has no significant impact on consumers' intention to purchase eco-friendly products.
 - H_1 : Ethical consumption consciousness has a significant impact on consumers' intention to purchase eco-friendly products.
4. Marketing Strategies for Green vs. Non-Green Products
 - H_0 : The marketing strategies for green products do not significantly differ from those used for non-green products in influencing consumer purchasing decisions.
 - H_1 : The marketing strategies for green products significantly differ from those used for non-green products in influencing consumer purchasing decisions.
5. Gen Z Consumers' Buying Behaviour Towards Green Products

- H_0 : Gen Z consumers do not significantly differ from other consumer groups in their willingness to adopt eco-friendly products.
- H_1 : Gen Z consumers significantly differ from other consumer groups in their willingness to adopt eco-friendly products.

RESEARCH METHODOLOGY

Research Design

This study adopts a mixed-methods approach, integrating both qualitative and quantitative research to examine consumer behaviour toward premium pricing for eco-friendly products. A descriptive research design is utilized to analyse consumer perceptions, attitudes, and purchasing behaviour, drawing on the Theory of Planned Behaviour (TPB) to understand how psychological and social factors influence the willingness to pay a premium. Additionally, the study evaluates the impact of green marketing strategies, assessing how companies position their products and justify higher pricing through sustainability claims.

Data Collection Method

The research is based on both primary and secondary data sources. Primary data is collected through structured surveys and interviews, targeting a broad range of consumers, including Gen Z, eco-conscious buyers, and general consumers willing to pay a premium for sustainability. Secondary data is obtained from academic research, industry reports, and government publications, focusing on the TPB model, green consumer behaviour, and marketing strategies adopted by eco-friendly brands. This dual approach ensures a well-rounded analysis of consumer decision-making and market dynamics.

Limitations of the Study

A key limitation of this study is potential response bias, as some consumers may overstate their willingness to pay a premium for green products due to social desirability. Additionally, the research focuses primarily on consumers who are already inclined toward sustainable purchasing, which may limit the generalizability of findings to a broader audience. Future studies could explore a wider demographic range and investigate long-term shifts in consumer behaviour toward premium-priced eco-friendly products.

Analysis of the Data

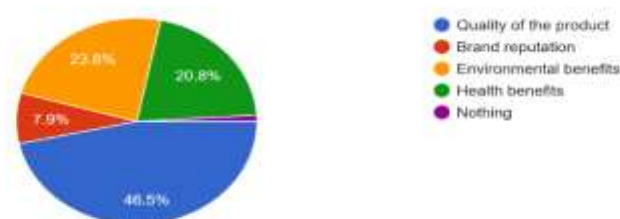
- Age: Respondents ranged from 18 to 34 years old, with the majority in their early twenties.
- Gender: The sample included both male and female participants, with a slight male majority.
- Education Level: Most respondents were pursuing or had completed postgraduate degrees (e.g., MBA, M.Com.).
- Experience with Eco-Friendly Products: Over 90% of respondents had previously purchased eco-friendly products.

1.Examine Consumer Willingness to Pay a Premium for Eco-Friendly Products

According to our survey, 68% of our respondents are willing to pay while 12% are not willing to pay and 20% to choose. It has been seen in our survey that 65% of respondents are willing to spend up to 10% and 25% of respondents are in 11-20% bracket while 7% are ready to pay 21-30% much extra for ecofriendly products.

Out of all respondents 58% prefer product quality as key driver while Health (48%), Environment (35%) and Brand Reputation (12%).

What factors influence your willingness to pay a premium for eco-friendly products?
101 responses



2. Analyse the Attitude-Behaviour Gap in Green Product Consumption

We have seen in our survey that 94.1 % of the respondent have rated environmental sustainability as very imp factor to choose ecofriendly products while 5.9% still not consider it as important while in corresponding to buying of goods 55.9% are consider it very imp while 41.2 % as somewhat important. So, we have seen a major relation between willingness to buy the product and to pay for the product which is 25.5% of respondent who value sustainability as very are still undecided to pay extra amount for ecofriendly product.

How important is environmental sustainability when making purchasing decisions?

102 responses

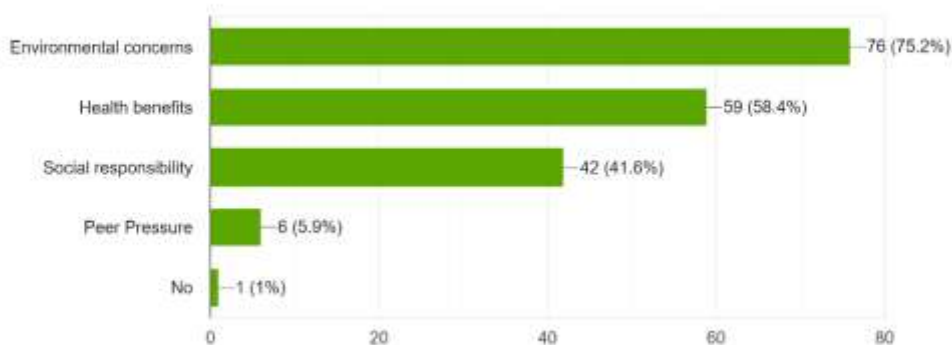


3. Assess the Role of Ethical Consumption Consciousness in Green Purchasing Decisions

75% of the respondent consider primary motivation of buying ecofriendly product is environmental concern and for 58.4% it is health benefits while social responsibility is primary motivation for 41.6%. so, we can say that these three are major driving force for consumer to buy ecofriendly products. In relation with attitude behaviour gap Respondents citing environmental concerns were 2x more likely to pay premiums more than 10%. While on the other hand social responsibility had weaker correlation.

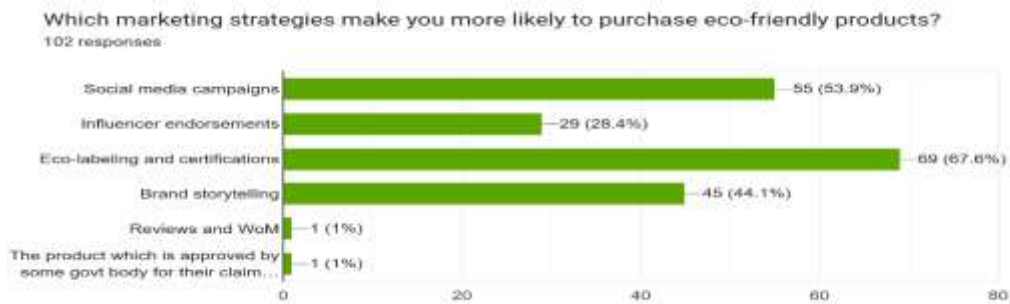
If yes, what motivates you to buy eco-friendly products?

101 responses



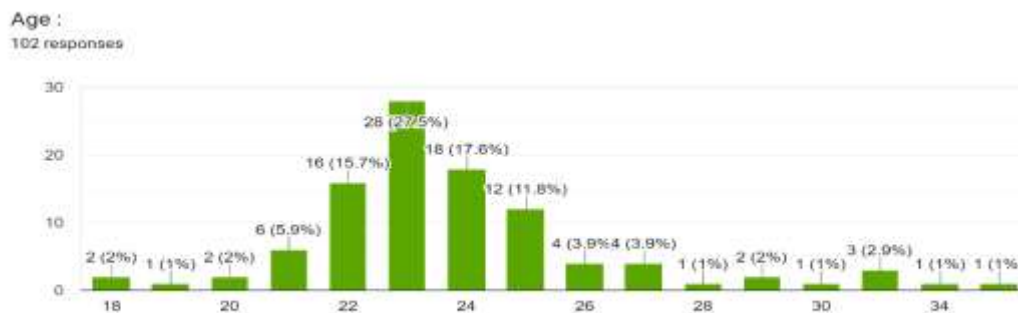
4. Compare Marketing Strategies for Green vs. Non-Green Products

After analysing of our survey social media campaign is much preferred factor among 53.9% of respondents, and for 28.4 % of respondents it is influencer endorsement while 67.6% consider eco labelling and certifications and 44.1 % of respondents are influence by brand storytelling. So we have seen a relationship between age and the marketing strategies for promoting ecofriendly product that the respondent in the age group of above 25 year old prioties brand storytelling which is 25% of the total while on the other hand the Gen-Z respondents (below 25 year) priories social media campaign (45%) and eco labelling (40%).



5. Understand the Buying Behaviour of Gen Z Consumers Towards Green Products

72% of Gen Z respondents said "Yes" willingness to pay premiums while same factor is 63% for age group above 25 years and 15% of Gen Z willing to pay more than 20% of premium while this is 8% for others. Trust in Brands about sustainability claims is 55% for Gen-z while they are going only 40% for sustainability claims.



Observations, findings, suggestions

Key Findings:

This research reveals several crucial aspects of green consumer behavior concerning premium pricing. While consumers voice a willingness to pay more for eco-friendly products, their actual purchasing decisions hinge on trust in the brand and perceived product quality. This highlights an "attitude-behavior gap," where positive environmental attitudes don't consistently translate into sales, particularly when price becomes a barrier. The Theory of Planned Behaviour is relevant, with ethical considerations and affordability affecting the purchase. To succeed, green companies are using eco-friendly practices as a differentiator and are transparent about these practices. Finally, Gen Z emerges as a key demographic, demonstrating a stronger inclination towards eco-friendly choices, driven by a blend of health and environmental concerns, and valuing brands that align with their values.

Observations:

A central theme emerging from this research is that trust is paramount; consumers must believe that an eco-friendly product genuinely delivers on its environmental claims and that the premium price is justified by its value. This value needs to be clearly communicated, whether through tangible benefits like enhanced durability or health advantages, or intangible aspects such as reduced environmental impact and ethical production practices. Gen Z represents a particularly promising target demographic due to their heightened environmental awareness and greater willingness to pay a premium for sustainable products. However, effective engagement extends beyond mere promotion; green marketing requires a

holistic strategy that integrates sustainability into every facet of the business, from responsible sourcing to eco-conscious packaging.

Suggestions:

Based on these findings, several actionable suggestions can be made to businesses and policymakers. Transparency and clear communication are paramount, including verifiable information about environmental impact, ethical sourcing, and readily available life-cycle assessments. Businesses should emphasize product quality, highlighting superior durability and health benefits to justify premium pricing. Given Gen Z's strong environmental consciousness, marketing efforts should be tailored to this demographic, utilizing social media to showcase social and environmental impact. Exploring varied pricing strategies, such as value-based pricing or discounts for eco-conscious choices, can address affordability concerns. Further, there must be a push to promote ethical consumption through awareness campaigns. At a governmental level, incentivizing green practices with tax benefits and enforced standards can drive broader adoption. Finally, the need for further quantitative research can support these findings.

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