

German Wine Auctions: A Marketing Tool for Differentiated Products?

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The Prädikat Wine Estates (VDP), a German wine producer organization, representing about 200 wine estates and about 3 percent of wine grape area in Germany, holds a number of regional wine auctions every year. They differ from those auctions held through regular auction houses, because while at the regular auction houses private and corporate owners sell older, collectible wines, the VDP auction, Germany's supposed premier wine producers, generally auction off some of their best young wines. VDP auctions in recent years have focused on most quality levels of the Riesling variety, among them the high quality Trockenbeerenauslese and Eiswein wines.

This paper examines two possible roles of the VDP auction for the wine industry. First, we argue that the auction constitutes a marketing instrument for the VDP members and their wines. While the revenues from the auctions may be not insignificant for some of the sellers, the auctions also serve the purpose of promoting some of the top German wine producers. Being eligible to sell their wine through these auctions is a privilege reserved to a small circle of estates that are VDP members. The media coverage of the auctions is high and the wines that are sold through auction are also given the special designation "Goldkapsel" to convey the message of high quality to consumers.

A second role of the VDP auction is that it serves as a price finding tool for specialty wine products. Only VDP producers are allowed at this exclusive auction and many wines offered are exclusive as well in that they have specific labeling, unusual bottle sizes or other characteristics

that differentiate them as a product from the wines in more normal supply chains. Over two thirds of the wines offered at the auction are from the two previous vintages and many are on the market for the first time. Because the wines are not offered in many other outlets, this first price obtained through the auction often determines how the wine will be valued in subsequent sales.

A further interesting aspect related to this second role is that the auction gives us an opportunity to understand how specific wine characteristics are valued by consumers. Using a dataset of about 500 observations from nine wine auctions that were organized in 2007, 2008 and 2009 by the Mosel-, Nahe-, and Rheingau-branches of the VDP, we investigate the effect of one such characteristic in detail, namely bottle size. A substantial share of wine is auctioned off either in 0.375 liter or in 1.5 liter bottles (“magnum”), rather than the standard 0.75 liter bottle. One question we ask is whether there is a price premium for a non standard bottle. Average knock-down prices for higher quality wines can reach 2000 Euros per liter, and a statistical analysis of the data reveals that indeed bottle size has a significant effect on the auctioned wine price, as far as magnum bottles and smaller than standard size bottles are concerned. Controlling for other wine characteristics such as vintage or quality, our analysis reveals that the 1.5 liter bottle receives a premium of 3.2 Euros per liter that is statistically significant. This size premium may be associated with the rarity of the product that makes it all the more “exclusive” in the eyes of the consumer.

We further examine whether bottle size does also have an effect on prices for wine of different quality levels. Looking at the six quality levels defined under the German wine classification we find that bottle size has only an effect for the Spätlese quality level. For that category, there seems to be a price premium for wines sold in smaller bottles than the standard 0.75 liter bottle. A third examination of the data concerns the fact that some wineries offer the same wine in different bottle sizes. Running a producer/wine-type fixed effects regressions reveals that bottles smaller than 0.75 liters show a statistically significant effect. Of the same wine offered in two or more different bottles sizes for auction, the smaller bottle yields a higher per liter price.

In conclusion, we argue that the bottle size effect may be explained by the association of bottles smaller or larger than the standard 0.75 liter size to higher quality. Higher quality wines such as Trockenbeerenauslese and Eiswein tend to be sold in smaller bottles. Alternatively, consumers may prefer to buy wine in smaller quantities simply because they would not empty a standard

sized bottle in one setting and they are thus willing to pay a slighter higher price. However, a question that demands further research is why there is not more variety in bottle size in a typical supermarket or wine store.