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Odd Prices for odd Bottles at VDP Auctions?

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Auctions are well-established pricing institutions in many markets, including markets for wine where auctions for high-value, rare wines have received most of the attention by economists. Auctioning ordinary wines has, however, also a tradition in some wine markets. At the beginning of the 20th century, for example, wineries in Germany formed associations for the auctioning of unadulterated "Naturwein". Out of these associations emerged the "Association of German Prädikat Wine Estates" (VDP), an exclusive voluntary association of German premium wine producers. Although the purpose of the VDP is no longer focused on auctioning wine, several of its regional associations organize annual wine auctions where VDP-estates offer wines – mostly Rieslings - that are not on their regular price lists.

This paper examines two functions of the auction for VDP-wineries. The first is the function of auctions as a marketing tool which provides wineries with an additional sales channel and which generates considerable media attention for the VDP and its members. We quantitatively characterize this sales channel using data from six auctions held by the Mosel-Saar-Ruwer, the Rheingau, and the Nahe-Ahr regional associations of the VDP in 2007 and 2008. The data comprise information on the estate of origin, vintage, grape variety, appellation, and quality category of the wines sold, the number of bottles offered and sold, and the prices paid at auction.

The second function of the VDP auction is that it serves as a price finding tool for differentiated specialty wine products. Bottling wine in bottles of different size is a form of product differentiation that tries to accommodate special groups of buyers, e.g. restaurants who ask for large-volume bottles for special events, or small-volume bottles for expensive ice wines which, if sold in regular-size bottles, would easily overburden both the palate and the budget of many wine drinkers. Incidentally, at the auctions some estates offer identical wines filled into bottles of different sizes and the data of the six auctions contained useable price data for more than 70 matched pairs of wines. A matched pair consists of two or more lots of the same wine where one lot is filled into regular .75 liter bottles and the other lot(s) consist(s) of bottles of a different – odd – size, mostly of .375 liter bottles or of 1.5 liter (magnum) bottles.

We use this dataset to answer two questions. First, do wines in odd-sized bottles sell at higher prices? We expect this to be the case because bottling wine in odd-sized bottles incurs higher costs. Controlling for other wine characteristics such as vintage or quality, preliminary analysis suggests that wine in 1.5 liter bottles fetches a premium of 3.2 Euros per liter. The second question of interest is: What determines the size of the price difference between wines sold in different bottle sizes? In particular, do price premia for magnum bottles decrease with the quality category of the wine, and do the price premia for small bottles increase with the quality category?

For our analysis we use sample statistics as well as statistics for the matched pairs of wines in regular and odd-sized bottles.