

Vinelink International- Paris – March 2011

Preferences of wine consumers: the contribution of experimental economics

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Preferences of wine consumers :
The contribution of experimental economics

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Questions

Our purpose is to understand consumers' behavior by analyzing the willingness to pay (WTP).

Willingness to pay : the maximum amount consumers are ready to pay for a good or service.

Why?

In order to know the value of product attributes :

- To understand private industrial strategies and the development of market
- To assess the impact of public policy in consumers' behavior

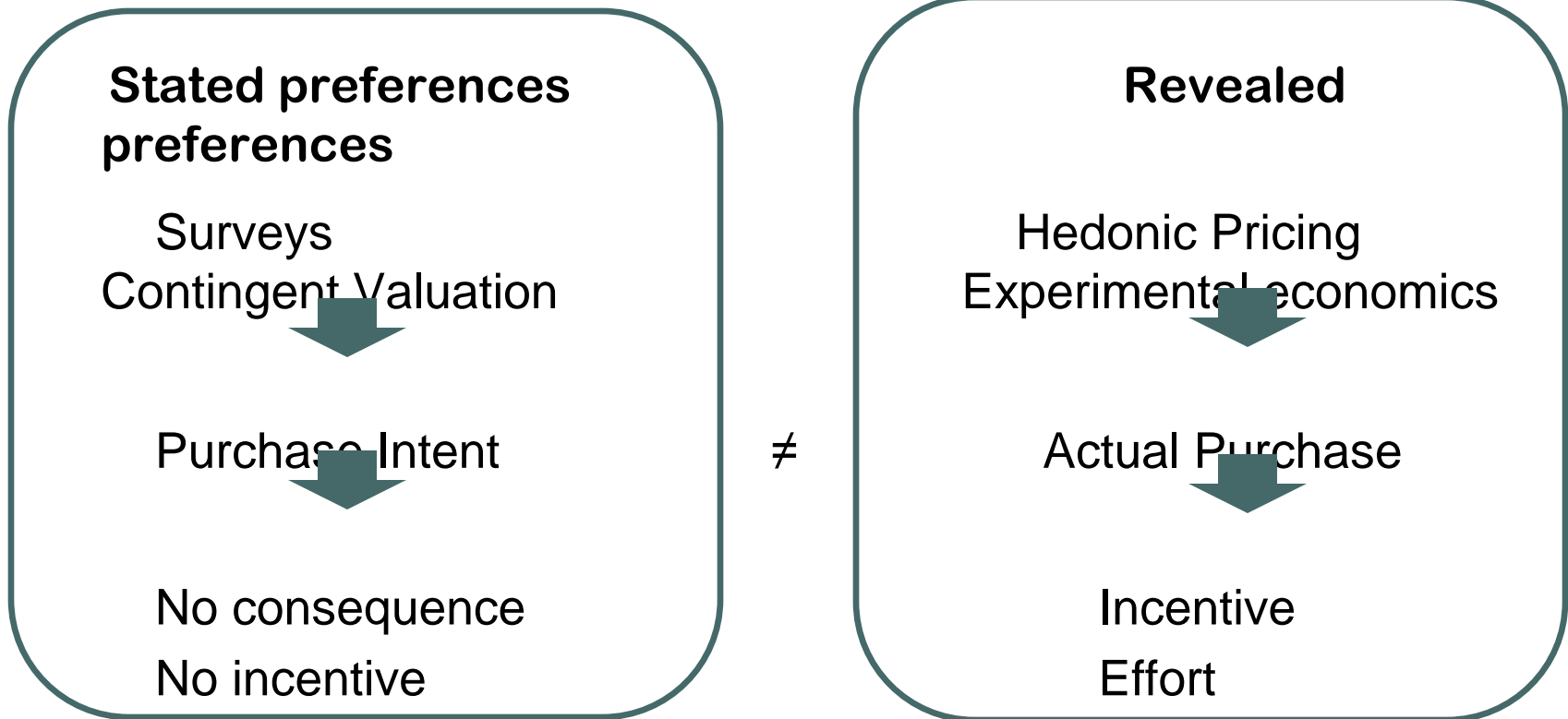
How?

To identify the impact of information on buying behavior :

- Information on products as sensory characteristics, brand, appellation information or production methods.
- More general information as recommendations, information campaigns.

Method

To assess the impact of information on preferences :



Experimental economics

The aim is to to replicate a **simplified economic** situation in a **controlled laboratory setting**.

In this case, the experimentalist **controls all the variables** involved in this economic situation.

(Smith, 1980; List ,2006 shows that lab behavior is a good indicator of behavior in the field).

Revelation mechanism used to estimate WTP:

- 2nd price auction, Vickrey (1961)
- Random nth price auction (Shogren et al., 2001)
- Becker, DeGroot, Marshak mechanism (Becker et al. 1964)

➡ imply an actual sale

Incentive mechanism: Vickrey Auction

- Each participant proposed a reservation price for each one of the wines.
- The winner is the participant who submit the higher bid.
- The winning bidder pays the second highest bid.

Example

Participant 1 : 15 €

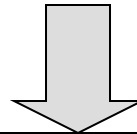
Participant 2 : 20 €  Winner

Participant 3 : 17 €

Participant 4 : 18 €  Sale price

Incentive mechanism: the BDM procedure

- In each one of these situations, the participants proposed a reservation price for each one of the wines
- At the end of the experiment, a sale price was randomly chosen for one situation/wine (in a distribution previously defined)



**Selling price <
reservation price**



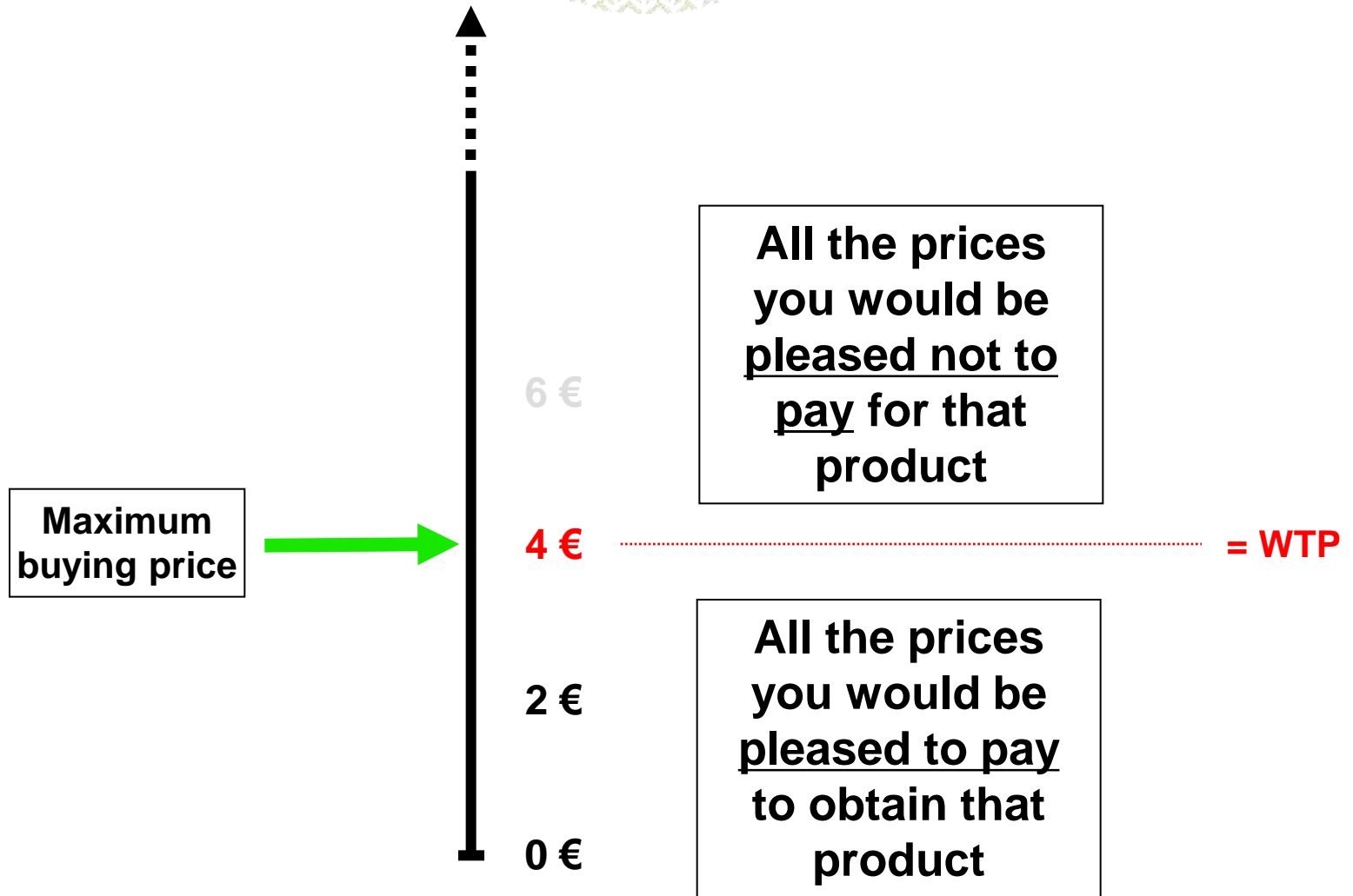
**The participant has to buy the
wine**

**Selling price >
reservation price**



**The participant cannot buy the
wine**

Incentive mechanism: the BDM procedure



Protocol

different wines were sold under 3 different information conditions

- Blind tasting



5 wines : 5 prices

- Label



5 wines : 5 prices

- Full information



5 wines : 5 prices

Random selection of one situation and one product



Actual sale

WTP for Champagne

Lange, Martin, Chabanet, Combris, et Issanchou, 2002

- Collective reputation Versus private branding
- How do informations influence consumers' preferences for wines and interact with:
 - Taste and sensorial characteristics
 - Other information available on the labels (Brand)

| Champagne | | |
|------------------------------|-----------------------|-----------------------------|
| Condition 1 Blind tasting | Condition 2 Labels | Condition Labels + taste |
| Lowest Price (unbranded) | | |
| Middle-range Brand | | |
| Famous Brand 1 | | |
| Famous Brand 2 | | |
| Famous Brand 3 | | |

WTP for Bourgogne

Combris, Bazoche, Giraud-Héraud, Issanchou, 2009

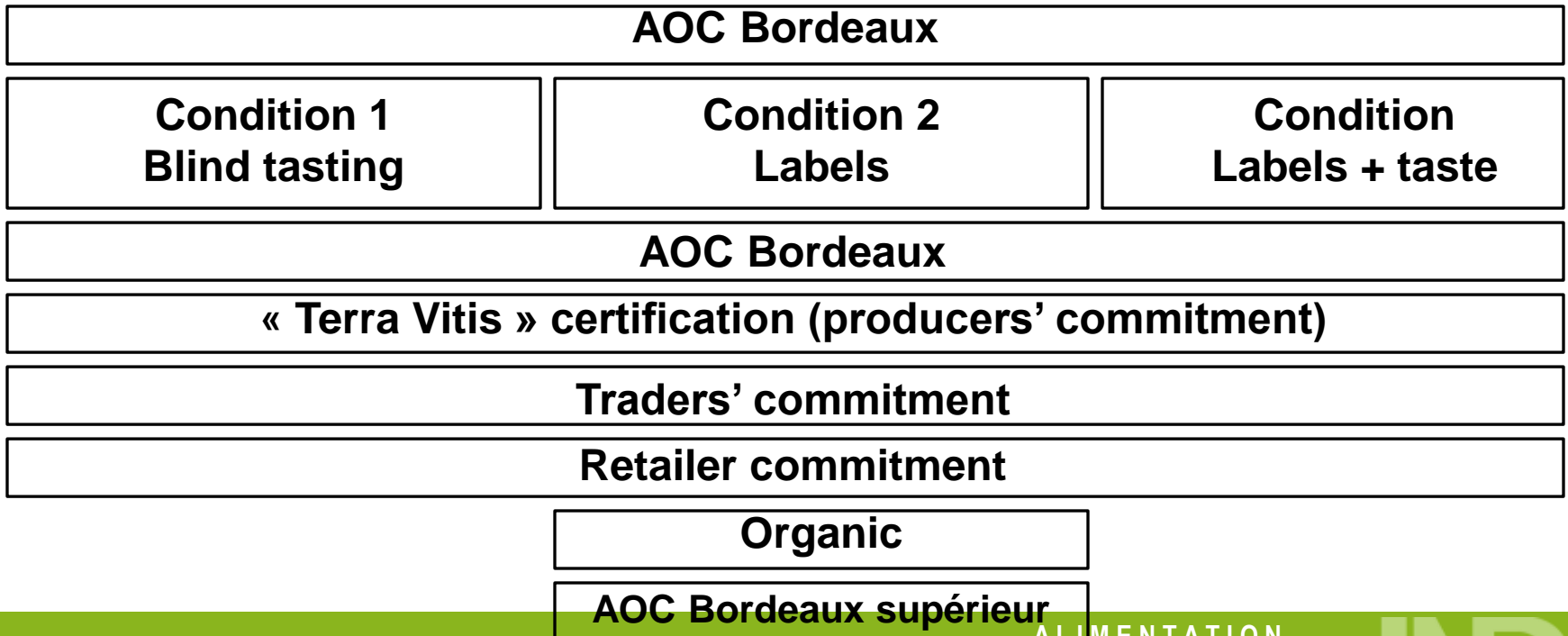
- **Collective reputation Versus grape variety (in France and Germany)**
- **How do informations influence consumers' preferences for wines and interact with:**
 - **Taste and sensorial characteristics**
 - **Other information available on the labels (Brand, grape variety)**

| | | |
|--------------------------------------|-------------------------------|-------------------------------------|
| Pinot Noir | | |
| Condition 1 Blind tasting | Condition 2 Labels | Condition Labels + taste |
| AOC Bourgogne | | |
| AOC Passe-tout-grains | | |
| Grape Variety | | |
| Gallo | | |
| Alternative labels | | |

WTP for Bordeaux

Bazoche, Déola, Soler, 2008

- Impacts of environmental issues on willingness to pay?
- How do informations influence consumers' preferences for wines and interact with:
 - Taste and sensorial characteristics
 - Other information available on the labels
 - General information on pesticide use.



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Main Results

- **Trade-off expected quality / perceived quality.**
- **Expected quality of AOC is high for French consumers but not for German consumers.**
- **WTP for wines with environmental characteristics are in several cases lower than for generic Bordeaux.**
- **By mean, it's difficult to find significant difference in blind tasting. Does it mean that consumers are not aware to differentiate between wines ?**

No, consumers have strong preferences. Heterogeneity in preferences is very important. By analyzing averages for each wine in each condition, the individual preferences for wines have been mitigated.