Can German Wine Cooperatives compete on Quality?

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Abstract:
The paper analyzes how German cooperative wineries compete with private (non-cooperative) wineries regarding reputation, quality categorization and varietal selection. Among the reasons why German cooperatives lag behind in terms of reputation for quality wine production are the governance principles of cooperatives and the managerial difficulty to handle individual growers that supply grapes of varying qualities. Cooperatives turn this grape supply into wine that is often classified as quality wine without much distinction. In contrast, privately owned wineries growing their own grapes have more control over quality along their production chain and thus are able to produce more distinctive wines and in turn gain a higher reputation with final consumers in terms of quality.

We analyze a data set for private and cooperative wineries from Germany in order to identify key differences in terms of reputation for quality wine production. Specifically, we look at interaction effects based on organizational form (cooperative vs. private) and the German wine quality categorization (i.e. basic quality wine vs. Kabinett, Spätlese, or Auslese) as well as varietal effect. We employ a hedonic pricing model testing the hypothesis that wines from private producers receive a reputation premium relative to cooperatives. Moreover, we hypothesize that wines from private wineries receive a price premium relative to cooperatives for the non-basic quality wine categories and signature varieties such as Riesling and Pinot Noir.

The empirical analysis confirms the hypotheses. The estimated parameters indicate that cooperatives are able to gain quality premium only for basic quality wine and non-signature varieties such as Dornfelder. We can argue that German cooperatives are stuck in the low quality corner of the category system as well as the variety spectrum and are not able to compete with private wineries in terms of quality. This result also supports the observation that cooperatives typically compete on price with their wines being sold in discount stores.

Key Words: Cooperatives, Product Quality, Reputation.

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