

ECO-LABELING STRATEGIES: THE ECO-PREMIUM PUZZLE IN THE WINE INDUSTRY

Magali A. Delmas (UCLA) and Laura E. Grant (UC Santa Barbara)

Abstract

Eco-labeling signals that a product has been eco-certified. While there is increasing use of eco-labeling practices, there is still little understanding of the conditions under which eco-labels can command price premiums. In this paper, we argue that the certification of environmental practices by a third party should be analyzed as a strategy distinct from although related to the advertisement of the eco-certification through a label posted on the product. By assessing eco-labeling and eco-certification strategies separately, we are able to identify benefits associated with the certification process independently from those associated with the actual label. More specifically, we argue in the context of the wine industry that eco-certification can provide benefits, such as improved reputation in the industry or increased product quality, which can lead to a price premium without the need to use the eco-label. We estimate this price premium of wine due to the eco-certification of grapes using 13,400 observations of wine price, quality rating, varieties, vintage, and number of bottles produced, for the period 1998-2005. Overall, certifying wine increases the price by 13%, yet including an eco-label reduces the price by 20%. This result confirms the negative connotation associated by consumers with organic wine. The price premium of this luxury good due to certification acts independently from its label, a confounding result not previously demonstrated by related literature.