I want to submit an abstract for: Conference Presentation

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Keywords
Wine; Hedonic regression; Switzerland; Reserve, Pinot Noir

Research Question
What are the main determinants influencing the pricing of the Swiss wines in the context of a very competitive and opaque market?

Methods
Hedonic regression

Results
High competition and production costs coupled with a limited visibility of Swiss wines result in prices that depend mostly on collective reputation effects and on specific types of cuvees/blends

Abstract
The globalisation of the wine market has led to more choice for consumers. This is accompanied by a wish to (re)discover wine markets that go beyond the usual classic wine producers. Though not necessarily renowned, the Swiss market is by no means negligible and like other smaller markets it is gaining increased attention from consumers. The Swiss wine market assembles characteristics of larger, neighbouring wine markets with features of many smaller less developed wine markets. It is a small yet complex market that makes it ideal to study determinants of prices in a lesser developed wine market. Wine growing is diverse as climate and soil vary considerably across the country. Wine distribution takes traits that are present in many smaller wine growing countries that do not have a real classification or rating and on which market participants must themselves discover the market. The market structure is adapted to these specificities with a homogenous primary market on which producers sell their wines directly to consumers. A secondary market is nearly non-existent as wines are bought for consumption. Finally, as consumption outpaces production, Switzerland display high import activities but very limited exports.

The Swiss market is therefore characterized by a strong stability due to a steady offer and demand leading to relatively constant price levels. However, recently the situation has evolved for three main reasons. First, even though prices have largely remained stable in nominal terms, their positioning as compared to foreign wines has varied substantially. The 40% appreciation of the Swiss Franc towards the Euro has made local wines relatively more expensive as compared to foreign wines. At the same time, prices from nearby wine producing regions have strongly increased over the last decade. These two phenomena result in a market structure in which Swiss entry-level wines look extremely expensive but the best Swiss wines become increasingly attractive offering good quality
at a competitive price. Second, the Swiss wine market has started to attract international wine experts such as the Wine Advocate. Third, a young generation of winegrowers want to demonstrate that Switzerland has the ability to offer excellent wines and to compete with foreign high-end producers.

The most appropriate theoretical economic framework to describe the Swiss fine wine market is the concept of monopolistic competition (Krugman and Wells, 2009) which assembles both characteristics of perfect competition and monopoly market. In the perfect competition there are many producers and many buyers but this applies only to homogeneous goods like cereal or oil and not a differentiated product like wine (Dixit and Stiglitz, 1977). In a monopoly market there is only one supplier who can impose a certain price on the market which would maximize his own revenue, in this sense the Swiss wine market could be seen as an aggregate of different monopolistic markets (for example, Merlot from Ticino or Pinot noir from Graubünden for a specific price interval) with price substitution and preference effects between them (see Canning and Perez, 2008). The Swiss wine market has therefore many producers with differentiated wines and many consumers with contrasting preferences, letting the market determine disparate equilibrium prices and quantities. On the supply side, the Swiss market is determined by many grape varietals, identified by six wine growing regions with different microclimates and a number of national and international varietals which implies a very heterogeneous market within distinctive and complex products.

The main objective is to analyse the Swiss market for fine wine. Using a hedonic regression approach we thus examine the determinants influencing wine prices. More specifically, we first study the influence grape varietals, wine growing regions and producers have on wine prices. Our results suggest that while Petite Arvine leads to a premium, Gamay, Pinot Noir and blends show a price discount. We further find that wines from Valais and the Swiss-German part of Switzerland sell for higher prices, and wines from Vaud and Geneva display the lowest prices. Producers, on the other hand, only marginally explain wine prices which hint at a relatively uniform pricing structure on the market. Second, we take a closer look at the impact of wine positioning and labelling and wine growing techniques on prices. Our results show that being located in a renowned wine region or labelling wines with attributes such as premium, reserve or old vines trigger a premium. As in other wine markets barrel-aging also leads to higher prices on average.

The specificities of the Swiss wine market make this article especially relevant and complementary with the existing literature on wine prices and their determinants. This article advances our understanding of wine prices and markets along three distinct dimensions. First, we add evidence on wine price determinants. Most studies have so far analysed large wine producing countries such as France or the United States that are open to exports and display a strong organisation at the wine-making, wine-marketing and regulatory level. However, evidence on smaller wine growing regions having more rudimentary distribution channels, facing less stringent regulations on wine appellations, relying primarily on a historic domestic consumer base and not having wine experts covering its wines is very scarce. Second, to the best of our knowledge, this article constitutes the first study on the Swiss wine market. Though being a small market it has a long wine making tradition and is composed of consumers that are knowledgeable in wine. Third, we are able to compare a diverse set of grape varietals. Due to the lack of regulation different international and indigenous varietals are grown. This differentiates this study from others as we not only analyse a single region growing a restricted set of varietals (as for example Bordeaux with Cabernet Sauvignon and Merlot) but multiple regions that each grow multiple varietals.