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Red Bordeaux: Is there a Premium on the China Market? **Eric LE FUR, Benoît FAYE, Philippe MASSET, Jean-Philippe WEISSKOPF**

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Since a few years, fine wine from Bordeaux has become fashionable and much discussed from Hong Kong to Beijing. Indeed, while traditionally most wines consisted of grains such as rice or millet, grape wine has seen a rapid ascent in recent years. The increase in wine consumption has catapulted China into one of the most coveted markets for wine exporting countries. Since 2000, China has seen an increase from 4.9 million USD in bottled wine imports to 1.3 billion USD by 2011. Today, China and Hong Kong are also the most important customers for Bordeaux wines. China is the largest importer of Bordeaux wines representing 20% in volume and 17% in value of all Bordeaux exports. Hong Kong, on the other hand, has positioned itself as the number one place for fine wine from Bordeaux representing 5% in volume and 18% in value of all Bordeaux exports in 2011. It has further positioned itself as the fine wine gateway to China with a 82% re-exportation rate of French wines to mainland China.

Several factors are responsible for the intensified interest in fine wine and the increase in fine wine consumption in China. An increased economic and political openness has led the population to adopt traits from Western lifestyles. At the same time, Chinese government policies have altered consumer behavior by favoring healthier red wine consumption as opposed to traditional rice wine. Finally, a better education and stronger income has led to the emergence of a newly educated and wealthy class which is fond of fine wine. Furthermore, fine wine has not only grown into a popular consumption good but has also turned into a gift of predilection and an alternative investment among wealthy Chinese.

In this paper, we first describe the interest of Chinese for fine wine from Bordeaux across the last decade and the concurrent evolution of Hong Kong into the major place for wine auctions. We show that the demand for Bordeaux fine wines has strongly increased over the last decade and that the abolition of excise duties in Hong Kong has favoured the creation of a fine wine hub catering for the growing Chinese demand. We then construct fine wine indices over the period 2007-2014 using a hedonic pricing approach and hammer prices from five global auction houses over the fourteen most iconic Bordeaux wines. The resulting indices are used to examine the existence and evolution of a fine wine price premium at Hong Kong auctions. We find a 19% premium for fine wine sold at Hong Kong auctions as compared to other auction locations. We further show evidence that the price premium is not uniform across wines. The premium is strongest for wines with the largest brand power or the best expert scores. We attribute this phenomenon to the relative inexperience of market participants. Buyers have entered the market by purchasing those wines that have been most advertised or that deliver outstanding quality as evidenced by perfect expert scores. This is reinforced by a wish to convey a signal of status and refinement that is most easily reached by buying the most visible wines. Finally, we observe that the premium has been declining over time and is now stabilising at a level of around 15%. We argue that this is mainly due to the closing of the educational gap that leads buyers to consider a wider range of possible wine purchases. This is coupled to a clamp down on ostentatious behavior and anti-fraud measures by the government and the appearance of fake wine bottles that has reduced demand for specific iconic fine wines.