CRCE Focus

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Red wine, white wine . . .

GREEN WINE?

New study assesses novel marketing strategy for Colorado's emerging vintners

When buyers think of the Colorado wines of the future, will a "green" wine mean one that is young, raw, and underdeveloped? Or will it signify earth-friendly production as well as palate-friendly taste?

Colorado wines are winning awards in national and international tasting competitions, are attracting special interest in local outlets, and in the minds of some consumers have better-than-average quality.

Nevertheless, winemaking in Colorado is struggling to fill its full potential as an industry. Like some other secondary U.S. winegrowing regions—for example, Texas, New Mexico, Virginia, and New York—Colorado successfully produces wines with a variety of styles and flavors, but is encountering difficulties in creating a reputation for a high-quality product. The industry is seeking innovative marketing strategies that could increase the market niche for these local wines, including labeling programs touting local origins and environmentally friendly production methods. Dr. Maria L. Loureiro, a CRCE research affiliate and faculty member in Agricultural and Resource Economics at Colorado State University, is helping study consumer preferences, in an effort to help find that niche.

Delayed take-off. Winemaking began on Colorado's Western Slope more than a century ago and is one of the fastest growing wine industries in the nation. From 1990 to 1999, the number of wineries grew from five to 26, and the amount of wine produced in the state has more than tripled in the past eight years. Despite substantial growth through the 1990s, the Colorado wine industry remains small in relative terms. New growing areas in Pennsylvania, Virginia, Missouri, North Carolina, Indiana, Tennessee, and Arkansas have substantially higher production than Colorado. As reported by the *Denver Post* last year, for every 100 bottles of wine sold in Colorado, less than one (0.89 to be exact) is Colorado-grown. By comparison, Washington State wines account for nearly 25 percent of Washington State's wine market.

According to Dr. Loureiro, low quality levels in the past, coupled with some continuing quality inconsistency issues, are factors that have delayed the takeoff of Colorado wines. In a recent survey she conducted at wine stores, Loureiro found that most consumers (65 percent) think that Colorado wines' quality is "average" or "neither good nor bad". But there is a fairly important consumer segment (21 percent) that assesses the quality of Colorado wines to be "below average" or "bad". And on the other hand, perceived quality being a matter of taste, a small segment of consumers (6 percent) seems to think that Colorado wine quality generally is above average.

The survey. Loureiro's survey investigated not only consumers' consumption patterns and quality perceptions, but also their awareness and assessments of promotional programs, and their willingness to pay for special aspects of Colorado wine. As usual, the survey also collected information on the consumers' socio-demographic characteristics, to be used in analyzing demand tendencies. The survey was sponsored by the Colorado Wine Industry Development Board.

Like other studies, Loureiro's study showed that Colorado wine consumers tend to have higher incomes and more education than the general population, and that in other ways the group she surveyed was like wine drinkers nationally. That gave her a statistical basis for making good projections as to how those consumers would respond to marketing innovations.

Specifically, Loureiro used a method called "contingent valuation" to estimate how much extra buyers would be willing to pay for a bottle of wine they knew had particular characteristics. Loureiro found that, on average, buyers would pay 50 cents to a dollar extra, for a $10 bottle of wine, if the wine were of Colorado origin. A full 36 percent of buyers would pay an extra dollar if they could get a Colorado wine that matched their taste.

Green wine. An additional marketing strategy investigated in Loureiro's study is the use of environmentally friendly production processes and labels that denote them. "Colorado wineries may be able to benefit by emulating Coors," says Loureiro, "the Colorado beer producer that increased its market share substantially by creating an image of environmentally friendly production."

Indeed, Loureiro's analysis indicates that Colorado buyers are willing to pay an even higher premium for environmentally friendly wines grown in Colorado. In total, 56 percent of the persons interviewed were willing to pay a premium for environmentally friendly wines, versus only 42 percent who were willing to pay some premium for traditional Colorado wines. The calculated average premium that consumers would pay for a $10 bottle of environmentally friendly Colorado wine is about $1.50, compared with the 50 cents to a dollar for a normal Colorado wine.

Loureiro points out that, even though the extra willingness-to-pay indicates how much consumers would value the "Colorado" and "green" labeling, that doesn't mean Colorado wine producers could or should raise their prices by that amount. "A sensible plan might be to keep prices where they are, but to capitalize on the special designations as a way to increase market penetration," says Loureiro. The attractiveness of that approach will depend also on the costs of advertising Colorado origins, and the costs of the environmentally-sensitive production practices. Loureiro's future research may focus on those benefit-cost issues.

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