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# ***Practical Applications of the Price Elasticity of Demand***

Presented by

Dan Karnowsky, President  
Sonoma Research Associates

Presented at

***Competitive Forces Affecting the Wine and Wine Grape Industries: An International Conference on World Wine Markets***

University of California, Davis

Davis, California

August 10 2007

# Effective Use of Price Elasticity of Demand Allows Wineries to:





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- Reduce Inventory Cost by Accurately Estimating Demand

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Uses Price Elasticity of Demand  
to Answer Two Basic Questions

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- How Much Can I Sell

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## Uses Price Elasticity of Demand to Answer Two Basic Questions

- How Much Can I Sell
- How Much Can I Charge

# How Much Can I Sell

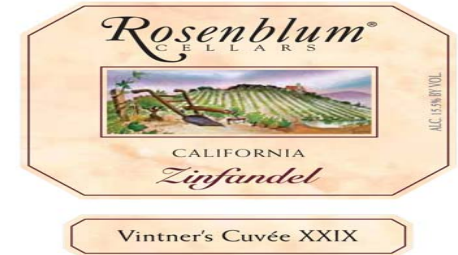
*Price Elasticity of Demand* help firms determine what quantity will be sold at various prices.

# How Much Can I Sell

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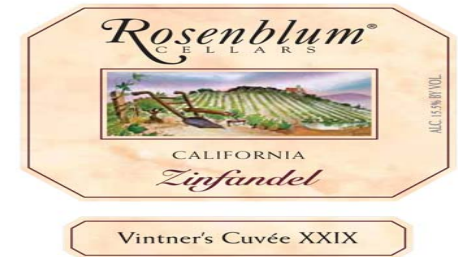
For example, if a winery is considering a price change, price elasticity of demand will tell them what will happen to quantity sold and revenue resulting from the price change.

# Estimated Annual Case Volume, Revenue and Price Elasticity of Demand at a Price of \$16 per 750 ML Bottle for a Rosenblum Zinfandel



<i>Estimated Annual Sales (Cases)</i>	<i>Estimated Annual Revenue</i>	<i>Estimated Price Elasticity</i>
631	\$ 121,222.12	1.68

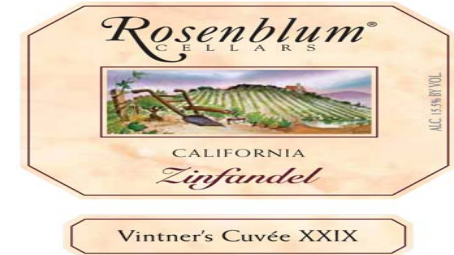
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More Importantly,  
Knowing How Price Elasticity Varies by Month  
Tells You How Sales Will Vary by Month.

# Estimated Monthly Case Volume, Revenue and Price Elasticity of Demand at a Price of \$16 per 750 ML Bottle for a Rosenblum Zinfandel



	<i>Estimated</i> <b>Monthly Sales (Cases)</b>	<i>Estimated</i> <b>Monthly Revenue</b>	<i>Estimated</i> <b>Price Elasticity</b>
January	48	\$ 9,144.51	1.68
February	70	\$ 13,508.15	1.13
March	52	\$ 9,920.74	1.55
April	37	\$ 7,017.27	2.18
May	49	\$ 9,359.35	1.64
June	42	\$ 8,093.62	1.89
July	37	\$ 7,129.08	2.15
August	49	\$ 9,445.43	1.62
September	43	\$ 8,213.89	1.87
October	61	\$ 11,803.03	1.30
November	63	\$ 12,081.58	1.27
December	81	\$ 15,505.48	0.99

**Annual Cases Sold**

**631**

**Annual Revenue**

**\$ 121,222.12**

# Accurately Forecasting Demand Allows Wineries to:

- Increase Revenue by Meeting Demand During Peak Months

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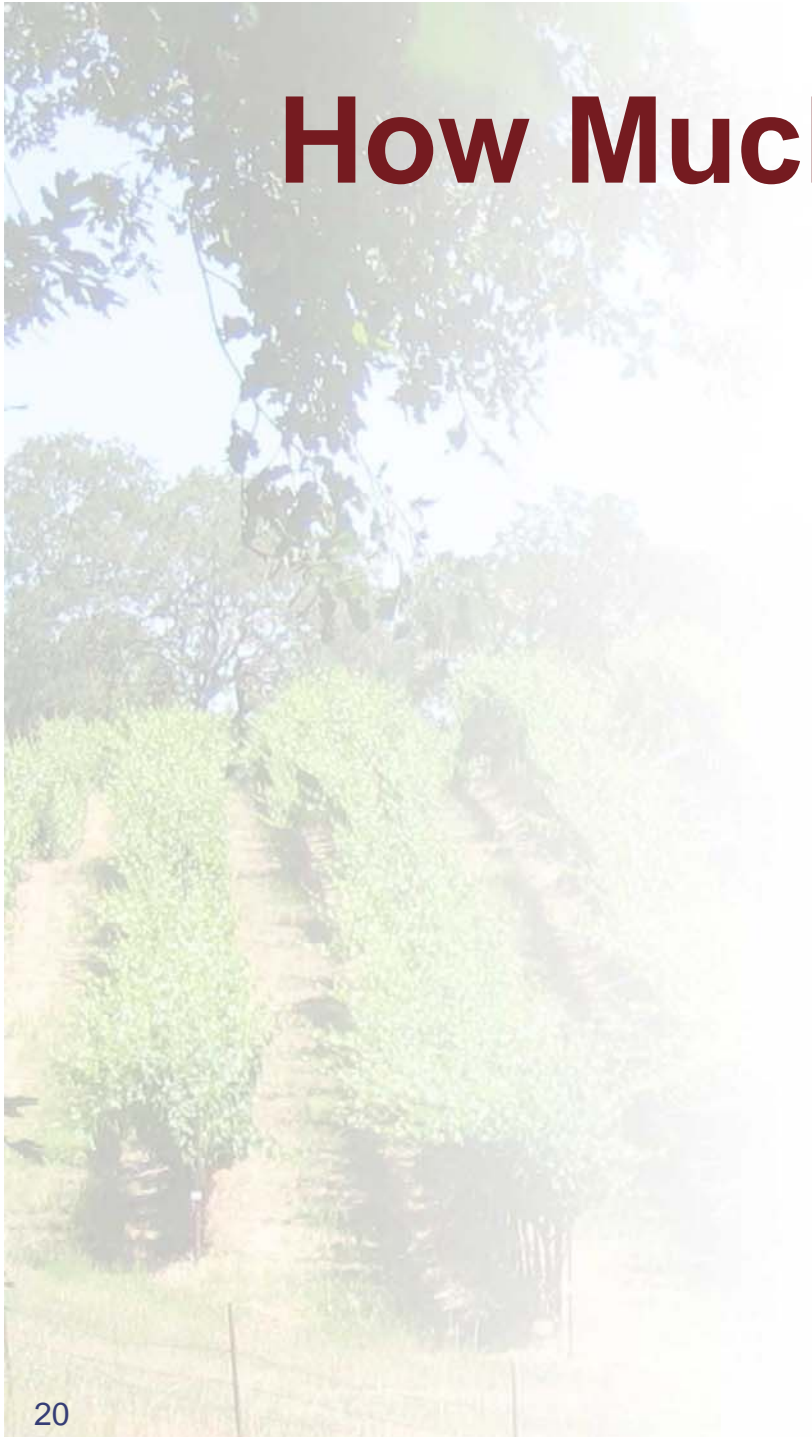
- Increase Revenue by Meeting Demand During Peak Months
- Reduce Inventory Costs by Reducing Shipments During Low Demand Months

# Accurately Forecasting Demand Allows Wineries to:

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This Same Type of Forecast Can  
Be Done Regionally As Well As  
Temporally

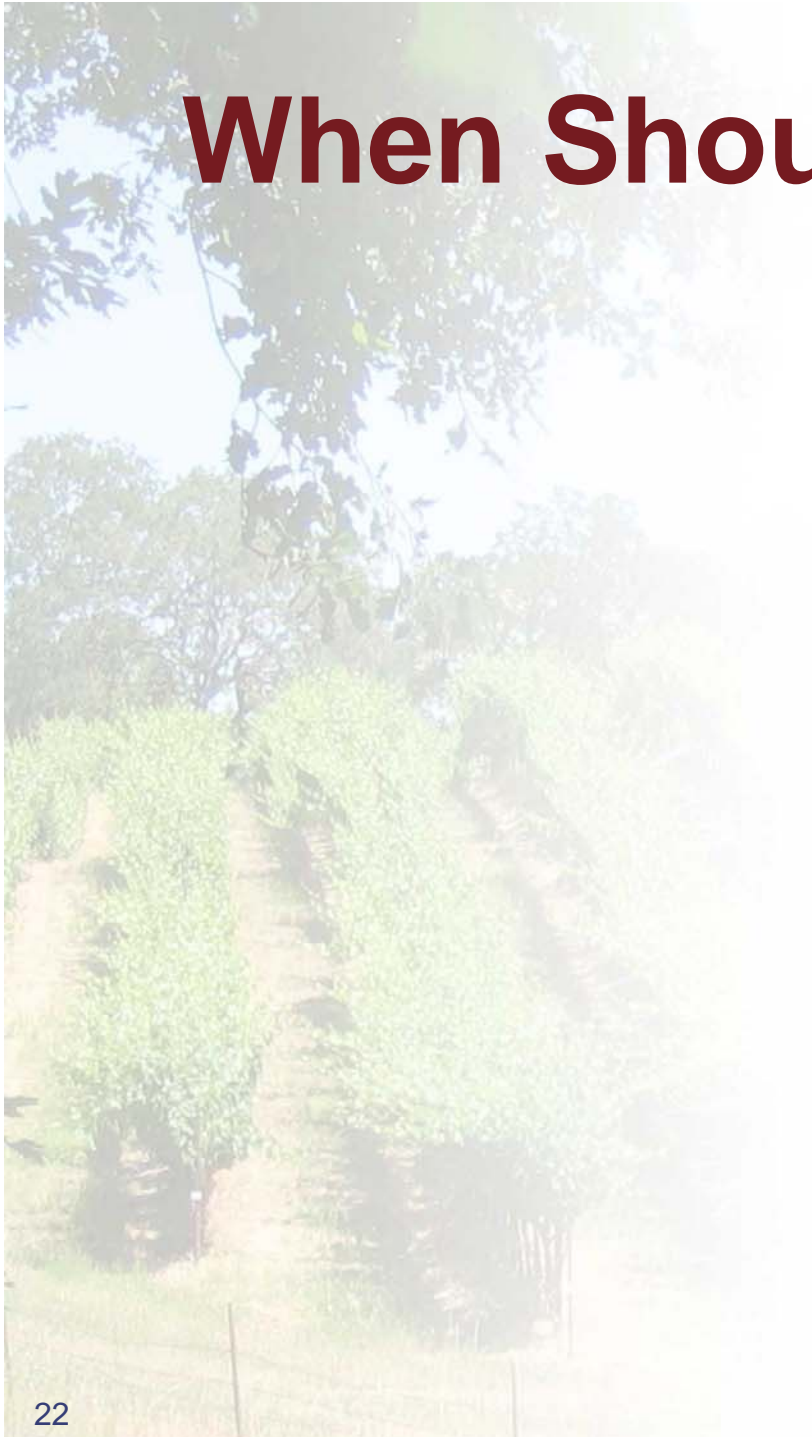
# How Much Can I Charge



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Price Elasticity of Demand Allows Wineries to  
Price Strategically,  
Both Regionally and Temporally

# When Should I Adjust Price



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*Price Elasticity of Demand* allows Wineries to effectively price discriminate Throughout the year

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For Example, demand changes during the holiday months of October, November & December.

*Price Elasticity of Demand* allows Wineries to take advantage of these demand changes through strategic pricing.



## Price Elasticity of Demand By Month Estimated for a Seghesio Zinfandel

	<b>Price Elasticity</b>
<b>Jan</b>	<b>0.653</b>
Feb	0.784
Mar	0.867
Apr	0.827
May	0.662
Jun	0.571
Jul	0.709
Aug	0.889
Sep	0.759
<b>Oct</b>	<b>0.703</b>
<b>Nov</b>	<b>0.640</b>
<b>Dec</b>	<b>0.486</b>

# Where Am I Most Competitive

*Price Elasticity of Demand* allows wineries to effectively price discriminate geographically

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*Price Elasticity of Demand* allows wineries to effectively price discriminate geographically

For example, if demand differs from location to location, *Price Elasticity of Demand* allows wineries to take advantage of these demand changes through strategic pricing.

# Price Elasticity of Demand in California by Region, Estimated for Turning Leaf Merlot



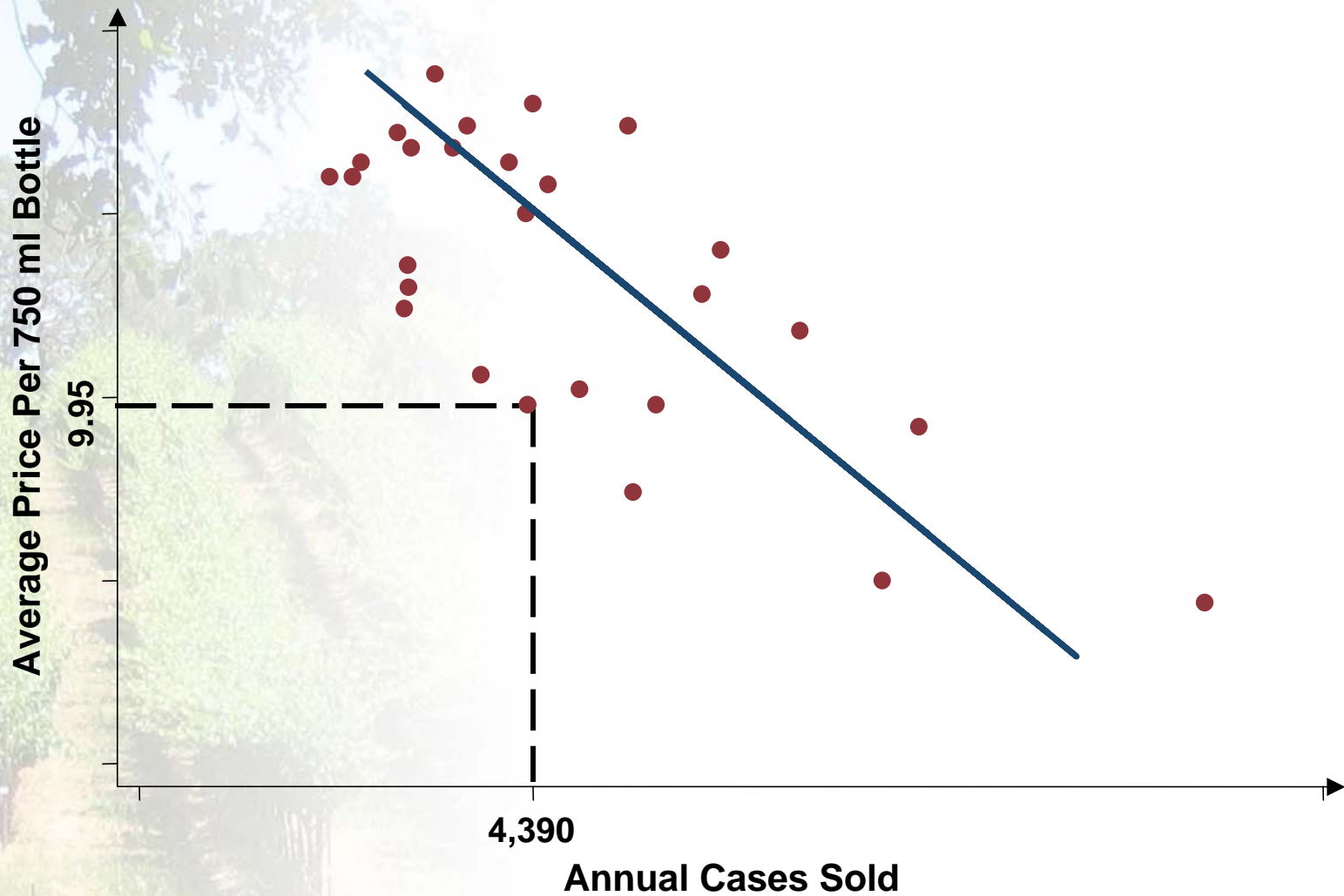
City	Price Elasticity of Demand
Los Angeles	0.88
San Diego	1.00
Sacramento	1.03
San Francisco	0.96

# How Much Should I Charge

*Price Elasticity of Demand* allows Wineries to estimate the maximum price consumers are willing to pay for your wine



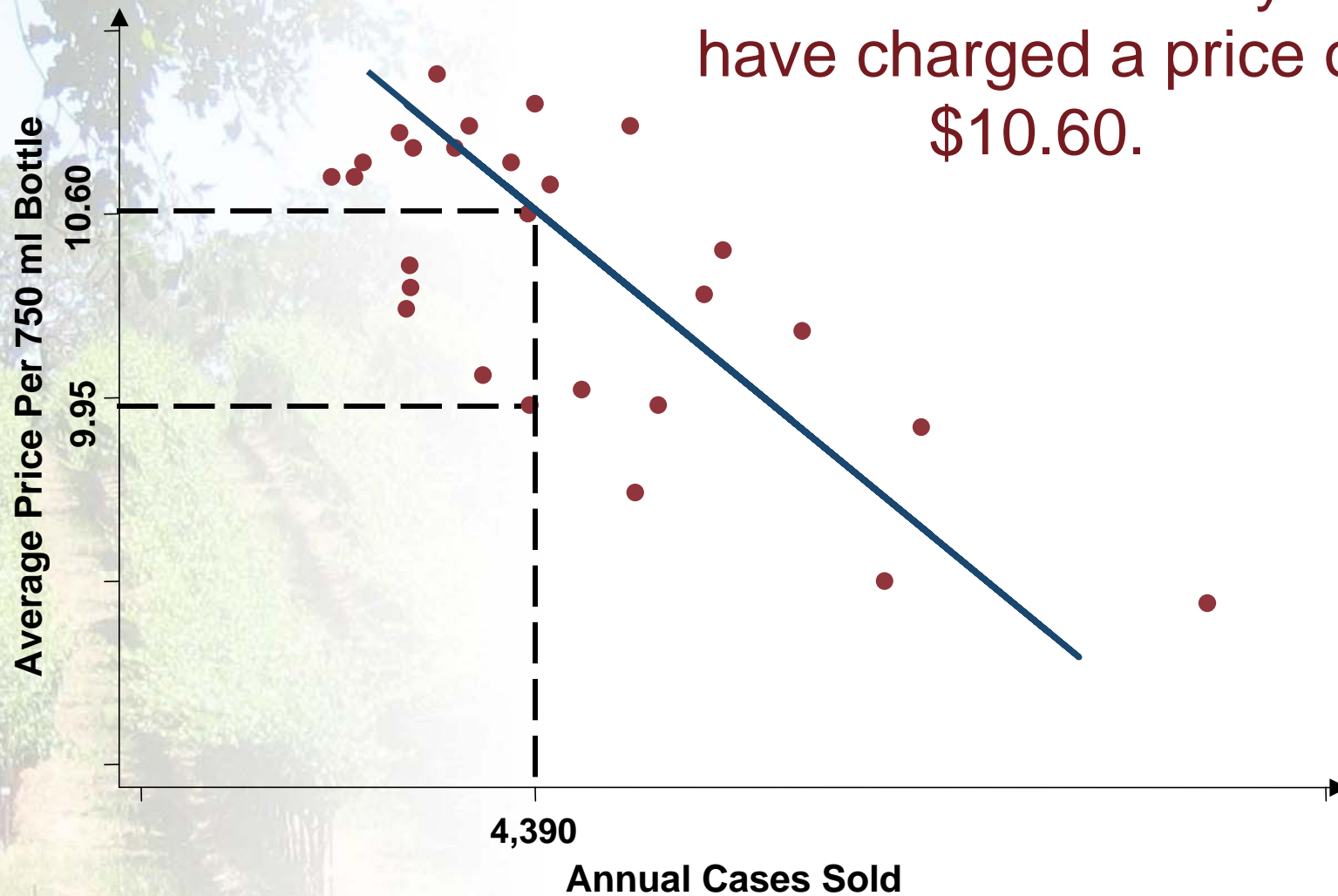
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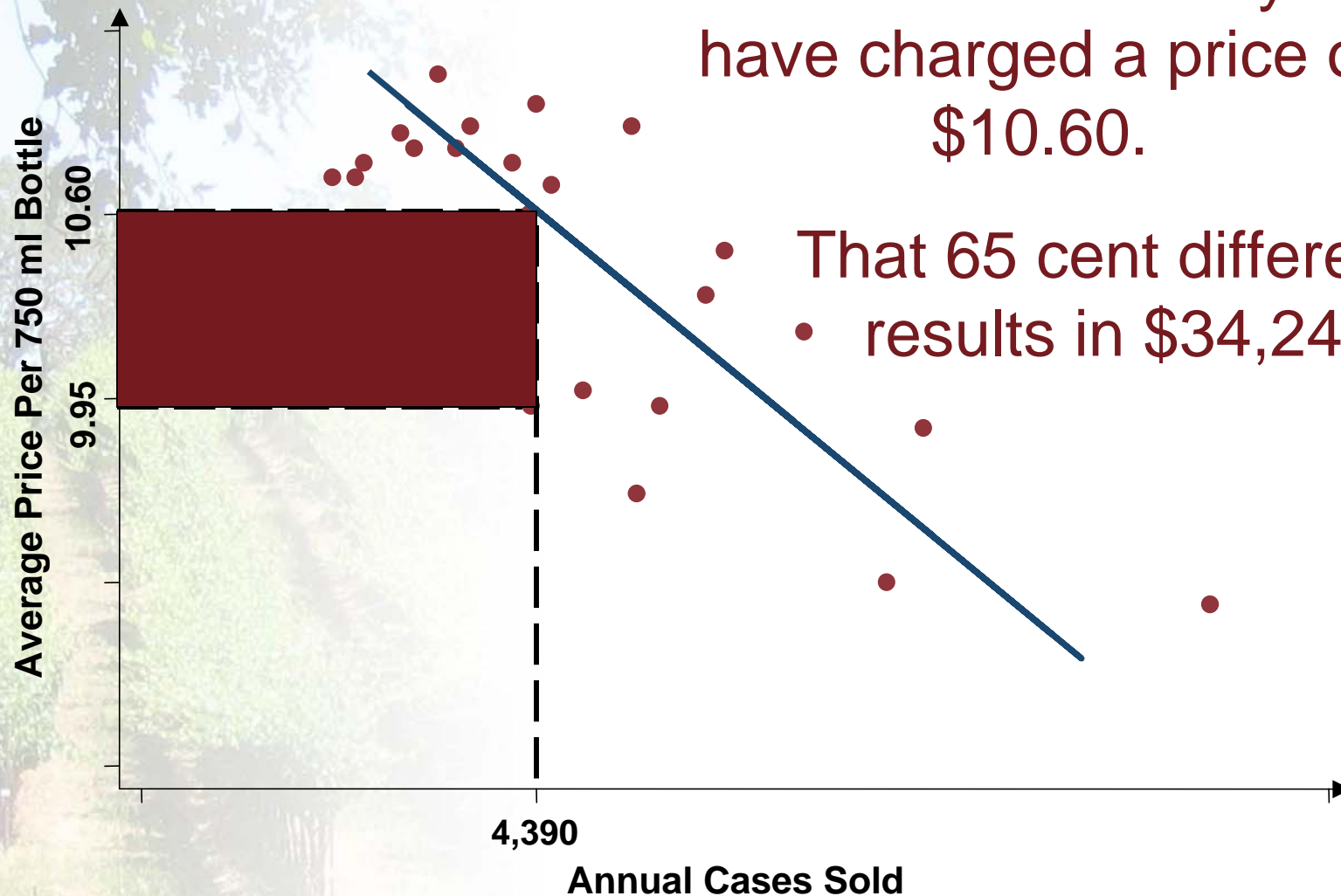




Pacific Rim Sold 4,390 Cases of Dry Riesling for \$9.95 Per Bottle.

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That 65 cent difference results in \$34,242.



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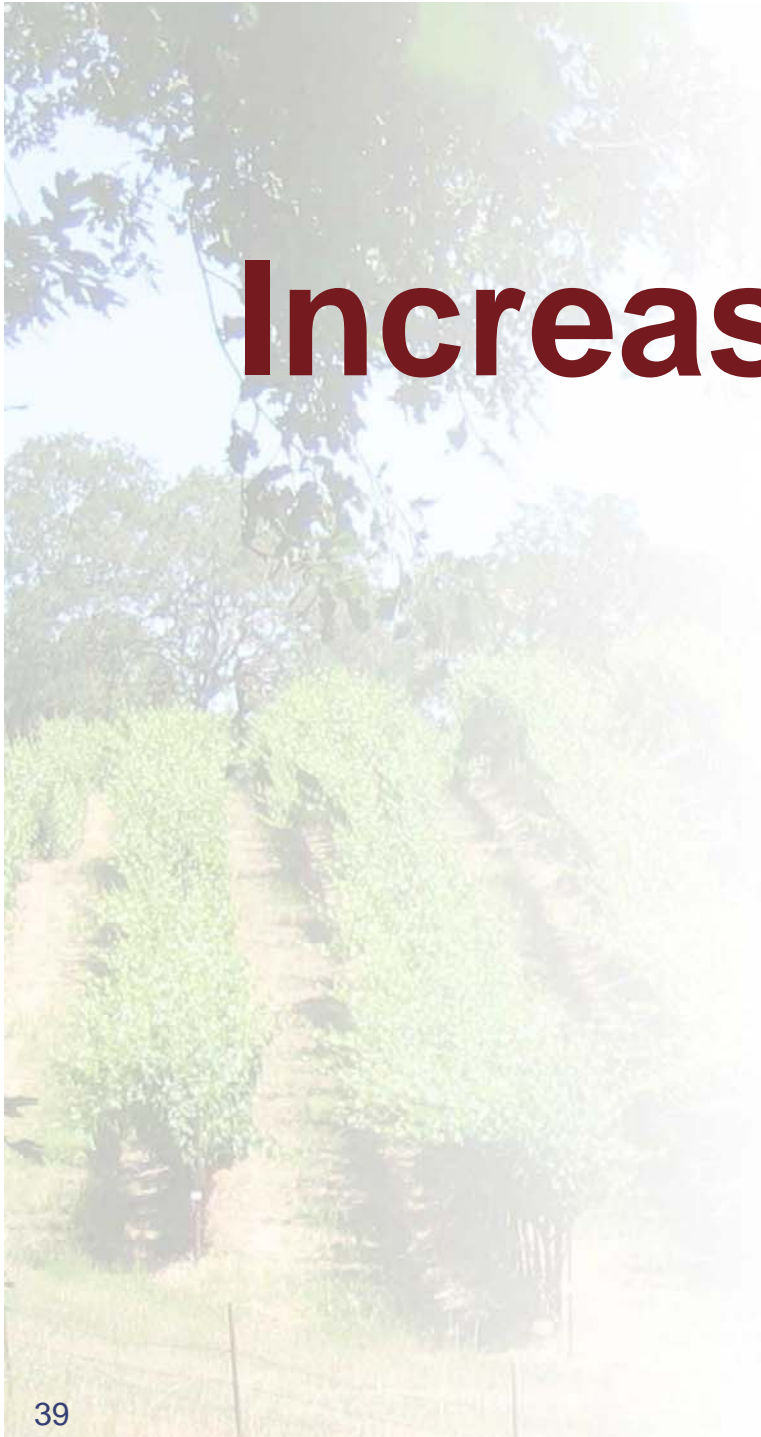
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# Increased Revenue





# **Increased Revenue**

## **– Decreased Costs**



**Increased Revenue**

**– Decreased Costs**

**= Increased Profit**

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***Glen Ellen, California  
(707) 935-1210***

***[www.sonoma-research.com](http://www.sonoma-research.com)***

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