

# Special Report

**LIV|EX**  
THE FINE WINE MARKET

## How to value fine wine



# Wine valuation in the 21st century

In 2018, two bottles of 1945 Romanée Conti sold at auction for US\$558,000 and \$496,000 respectively, smashing all previous records as well as the expected sale prices. Headline-grabbing events like this push fine wine collecting into the spotlight, and often prompt questions about how to accurately put a price – particularly such a high one – on a bottle of wine.

The reality is that the vast majority of fine wine – collectible bottles that are built to age – is far easier to value than ‘unicorn’ bottles like these. This article outlines the factors influencing the price of fine wine, and how wine professionals can arrive at accurate valuations efficiently.

## Why fine wine can be valued accurately

Fine wine is unique among alternative asset classes like art and classic cars. Every piece of art, for example, is different. It can take decades for the same piece to reappear on the market, making valuation challenging despite the emergence of art indices.

Wine is different. Each year, producers make many bottles of the same wine. Some, like many top Bordeaux, are made in significant quantities. Even the smallest producers will make several hundred cases of the same wine each year. As a result, the same products are often available simultaneously from retailers around the world, and change hands frequently. Super-rare old bottles of Romanée Conti are the exception, rather than the rule.



This makes it much easier to arrive at accurate valuations for fine wine than art. The chart shows trading activity for Lafite Rothschild 2006 over five years. The grey markers represent trades of the wine on Liv-ex, the global marketplace for the wine trade. The red line is its Market Price, which is widely used for valuations. As you can see, it tracks transaction prices very closely.

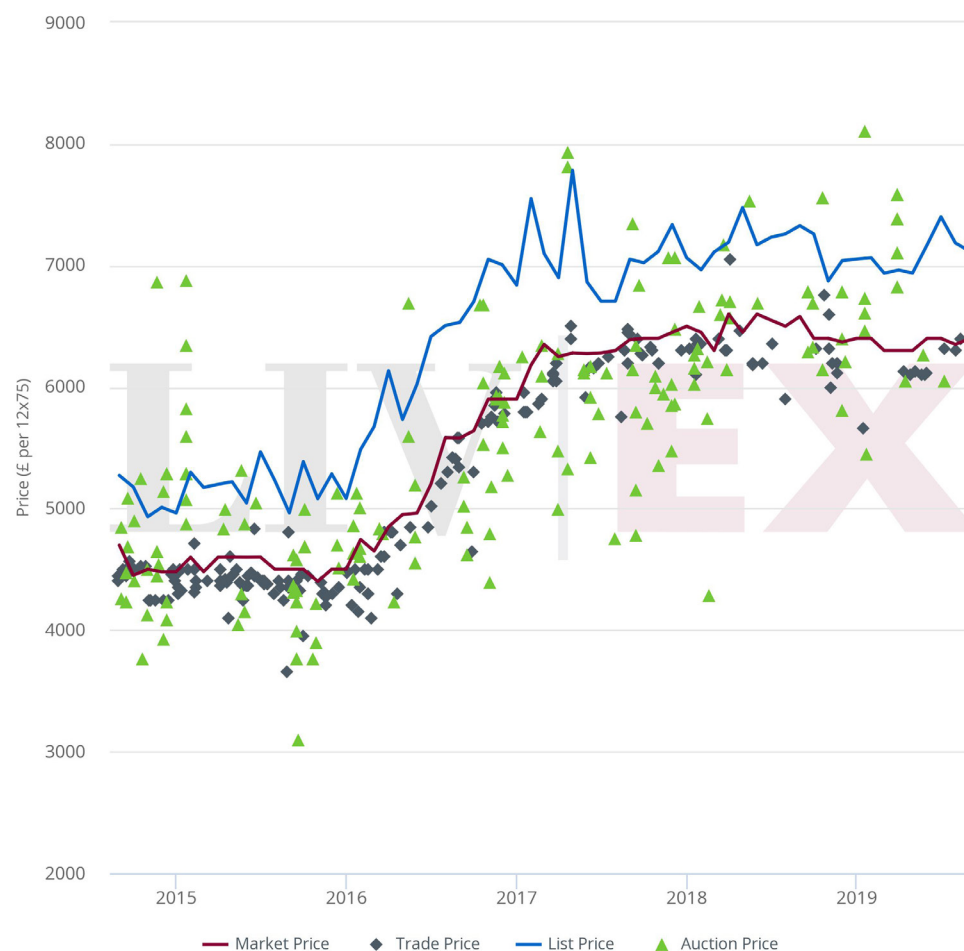
## What influences the price of wine?

There is a long list of factors that influence the prices of fine wines: current market strength, the region, the popularity of the producer, critic scores, the general appeal of the vintage, scarcity, age and more.

There are also reasons why two bottles of the same wine might hold different values. Most commonly, these relate to the condition of the wine. Is the bottle in perfect condition, and is it in its original wooden case? Value can also be affected by tax status. Have local taxes been paid, or is the wine stored in bond?

The Lafite Rothschild 2006 chart also shows auction prices in green. As you can see, they can vary enormously. We have no way of knowing why, on the same day, one case of Lafite 2006 sold for £5,079 and another for £6,877, but it is likely due to differences in their conditions.

### Lafite Rothschild, 2006



## The importance of standardised price data

When valuing fine wine, it is important to make sure that you are comparing like for like. If your case has been stored in perfect condition since purchase, you want to make sure that your valuation is based on similarly perfect cases.

As the Lafite Rothschild 2006 chart shows, you could be seriously undervaluing your wine if you rely on information from a previous sale where, for example, the wine labels were damaged. This is the main challenge of relying on auction data, which is not standardised.

Fortunately, the SIB contract (Standard-In-Bond) is commonly used today. It is for wines that are in perfect condition, original packaging, and are stored in bond. This accounts for the vast majority of fine wine that is actively traded on the secondary market. It means that market participants can be confident with these valuations. This is why the grey markers on our chart trend together, whereas the auction data fluctuates.

## Valuations using the Liv-ex Market Prices

The Market Price is used by leading merchants around the world to provide independent valuations for clients. Many also use it to help inform purchase decisions and to decide on the correct prices for sales. It is the price that a buyer can expect to pay for a wine on the secondary market.

## Key influences of wine prices



### Market Strength

The fine wine market experiences cycles



### Critic Scores

Higher scores often mean higher prices



### Region

Some regions can command higher prices



### Producer Popularity

Popular brands can cost more



### Scarcity

Rare wines come at a premium



### Tax Status

Has duty and tax been paid or is it in bond?



### Commission

Expect professional buyers to take commission



### Age / Vintage

Older wines and top vintages command premiums



### Classification

The wine's position in the regional hierarchy



### Conditions

Damaged bottles reduce prices

To calculate the Market Price, Liv-ex looks at listed prices among a large group of trusted international merchants. Preference is given to prices from stock-holders over brokers, to cases over single bottles, and to recent prices over older prices. The algorithm behind it runs every day, evaluating a pool of over 100 million data points to determine the most accurate Market Prices for over 286,000 wines.

Since it is based on listed prices, it tells you the cost of replacement for a case. If you are a private collector, you need to account for commission when selling wine to a merchant. You might expect to receive offers 10-15% below Market Price for your wine, depending on its condition. Premiums may be offered for older wines with exceptional provenance.

## Accounting for condition issues or large formats

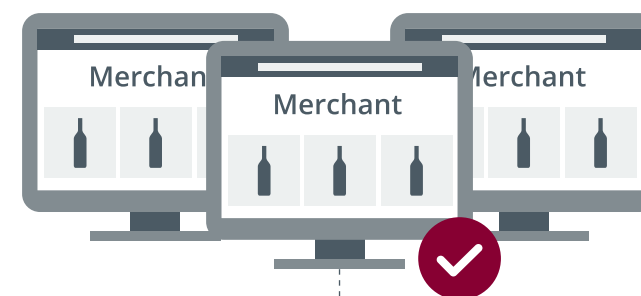
The Market Price can be used to accurately value wines in good condition. Where this is not the case, experienced fine wine traders can advise on adjusted valuations using their professional expertise.

The same is true of large format bottles, such as magnums or jeroboams. These may command premiums on regular bottle sizes, particularly for champagnes.

## How Liv-ex calculates Market Prices

### Trusted merchants

Liv-ex gathers prices from trusted international merchants.



### Algorithm

The Liv-ex algorithm calculates accurate and consistent pricing across all wines.



### Liv-ex Market Prices

Used by leading merchants and wine buyers around the world.





# How to carry out a valuation

It wasn't long ago that valuing a portfolio of wines was a lengthy and manual process. Before the Internet, phoning other merchants or looking through printed brochures was the default option for discovering price information for fine wine. Prices from various sources would be noted down, and eventually the merchant could make a judgement on the value of the wine. It was extremely time consuming and the risk of error was considerable.

The arrival of the Internet made information sharing far more efficient. Visiting several websites and searching for prices was quick and easy compared to sifting through piles of paper. Yet a similar process continued; search for a price, note it down, search again, compare it, make a judgement. Although digitalised, the process has remained very manual.

Today, wine professionals and private collectors have several options when it comes to valuing portfolios accurately, efficiently, and even automatically.

## Methods for professionals

### Free online searching

A free way to find wine prices is to get busy with sites like Wine Searcher or Google. Anyone can open up a web browser, search for a wine, and note down the advertised price. If you rarely need to value fine wines, aren't working with a long list, and don't wish to pay for a premium service, this may be your best option.



As a general rule, this method isn't recommended for non-professionals. Experience is required to make good judgements about which price points can be trusted, particularly for old and rare wines. For example, many advertised prices may come from broking companies who do not have the stock available. It can be impossible to find wine at the advertised price, making that valuation inaccurate.

### Detailed online searching

More sophisticated online resources are available to members of the wine trade that offer a greater depth of data and provide more accurate valuations. [Liv-ex](https://www.liv-ex.com)<sup>1</sup> is such a resource. The online platform shows members transaction prices (bids, offers, last trade), and the Market Price.

This is a good option when you only need to check the prices of a small handful of wines.

### List matching tools

For merchants needing to quickly value their customers' wine lists, there are web-based tools available like [Wine Matcher](https://www.liv-ex.com/knowledge/wine-matcher/)<sup>2</sup> that allow merchants to take wine lists and quickly add valuation information using actual prices transacted on the fine wine market.

To produce a valuation for a client, you just need an Excel document with the wine names and quantities. You can upload this to Wine Matcher, and a few minutes later, it will be ready to download with price information added. You can then share this with your client.

<sup>1</sup> <https://www.liv-ex.com>

<sup>2</sup> <https://www.liv-ex.com/knowledge/wine-matcher/>

## Valuation methods for professionals



### Free online searching

Prices can be found free on places like Wine Searcher and Google.



### Detailed online searching

Liv-ex provides more sophisticated search tools.



Professionals



### List matching tools

Tools like Wine Matcher can convert your wine lists into price lists.



### Automation

Tools can be developed to automate the process of valuing wines.

Businesses like Cru World Wine are using it to value lists of wines, which they can then use for locating buying opportunities. As part of a recent study, fine wine trader Will Wilterton described how he can save several hours on one list alone:

“I can save a couple of hours on a big list, but it’s not just about saving time. It means that I can look at more lists than I could before – more offers, from more people”, says Wilterton.

The tool is only available to members of Liv-ex on a high enough tier<sup>3</sup>, but it’s a good option for businesses that regularly require valuations, and don’t want to invest in tech development.

### Automation

Like many industries, the wine trade is beginning to embrace automation, and valuations can also be generated automatically and updated in real-time. You can produce valuation reports directly from your internal systems – for your own lists, for your client reserves, and for any other lists you receive. These can then be shared with customers if you wish. The only manual intervention needed is when you email this out.

Some merchants remove manual intervention altogether. They give their clients access to valuation information on demand, by allowing them to track the valuation of their portfolios on an online web portal.

This option requires some investment in tech development, although it’s likely that your existing ERP or other system may already support it. This is a good option for merchants who manage several portfolios and want to be able to offer valuations quickly. Experts<sup>4</sup> offer free scoping sessions to explore the benefits and costs.

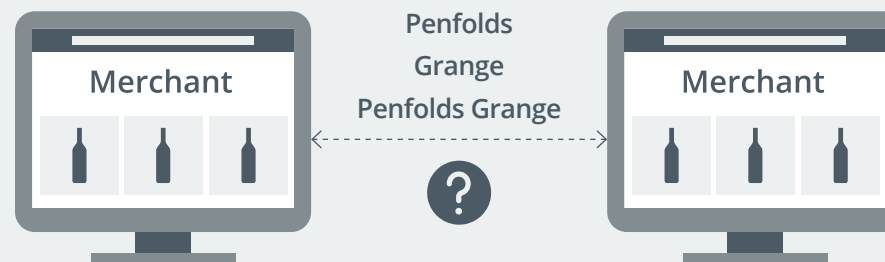
<sup>3</sup> <https://www.liv-ex.com/membership/>  
<sup>4</sup> Email [neil@liv-ex.com](mailto:neil@liv-ex.com)

## Powered by LWIN

Behind the scenes, LWIN is largely responsible for modern efficiencies in valuing fine wine. LWIN is a unique seven-digit numerical code designed to quickly and accurately identify an individual fine wine product. It enables messaging between systems and over the Internet, allowing the people and businesses in the wine trade to share information more easily.

Before LWIN, wine names were easily confused. It was impossible for a computer to know that “Penfolds” and “Grange” referred to the same product. Now, systems like automation and Wine Matcher use LWIN codes to match price data to wines with complete accuracy.

### Before LWIN



### After LWIN





## Methods for collectors

### Merchant services

Many wine merchants now offer portfolio valuation as a complementary service. Often they use the techniques mentioned in this report to provide fast and accurate valuations for your portfolios, and use independent data from Liv-ex, whose members are licensed to share price data with their customers. Just ask your merchant for help.

Speaking to a trusted merchant is a particularly good idea when you have rare or damaged stock. They can advise on adjustments to the Market Price.

### Cellar management tools

Cellar Watch<sup>5</sup> is a tool for private collectors of fine wine. If you are a collector, and your merchant is unable to provide valuation services, you can use it to view price information from the fine wine market. You can upload your portfolio and track wine values in real-time. You'll be sent a monthly valuation report, and you can also generate reports on-demand.

### One-off professional valuations

There are various reasons why other professionals might require fine wine valuations. Often these are needed for insurance quotes or to settle legal issues.

If you need a one-off valuation, you probably don't want to invest in any long-term software. Instead, bespoke quotations are available on request via [salesteam@liv-ex.com](mailto:salesteam@liv-ex.com)<sup>6</sup>.

<sup>5</sup> <https://www.cellar-watch.com/>

<sup>6</sup> Email [salesteam@liv-ex.com](mailto:salesteam@liv-ex.com)

## Valuation methods for collectors



### Merchant services

Merchants can provide professional valuation services for you.



### Cellar management tools

Cellar Watch is a good tool for keeping track of your wine portfolio and prices.



### One-off professional valuations

Bespoke valuations are available on request at [salesteam@liv-ex.com](mailto:salesteam@liv-ex.com)

# Concluding thoughts

With so many factors affecting the value of wine, it's no surprise that valuations can vary considerably. This causes issues across the industry on both the supply and demand sides. But as the industry further embraces technology and data, our ability to place accurate valuations on wine of all appellations and all vintages improves.

Accuracy is one thing. Speed is another. We can do it now in a fraction of the time it previously took, with solutions available for most types and sizes of business and most needs cases.

With faster, more accurate valuations available, the wine industry and all its participants take another step towards being safer, more transparent and more efficient. We can all drink to that!



Liv-ex is the global marketplace for the wine trade. It has over 500 members from start-ups to established merchants and supplies them with the data, trading and logistics services they need, to price, source and sell wine more efficiently.

Liv-ex was founded in 2000 by James Miles and Justin Gibbs. It started with a group of 10 founding members in London, and a vision to make fine wine trading more transparent, efficient and safe.

Liv-ex publishes the actual prices at which wines are transacted. Its platform contains over £81.2m of firm buying and selling opportunities in over 16,292 wines. All are available to trade in real-time. Liv-ex conceived the Standard-in-Bond (SIB) contract to assure stock condition, delivery and faster payment and provide cost-effective logistics and storage solutions. Its APIs can automate much of this to further improve its merchant members' gross profits.

For more information visit [www.liv-ex.com](https://www.liv-ex.com)<sup>1</sup> or [get in touch today](mailto:nicola@liv-ex.com)<sup>2</sup>.

This article is provided for informational purposes only and does not amount to financial advice or advice as to the value or likely future values of any of the wines it discusses. If you are valuing wine in the US, you will need to consider that Market Prices are based primarily on European stockists and adjust for local conditions. You are advised to carry insurance when providing valuations in certain circumstances, such as for divorces, financing and loss adjusting. The market price should not be used to value wines in any financial instrument such as a fund. The opinions expressed are subject to change without notice. Neither Liv-ex Ltd nor any of the authors or editors of this newsletter accept any liability for the accuracy of its contents.

<sup>1</sup> <https://www.liv-ex.com>

<sup>2</sup> Email [nicola@liv-ex.com](mailto:nicola@liv-ex.com)