Determinants of the Argentinean wine price: A hedonic model

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Abstract:
Argentina ranks fifth as the largest wine exporter in the world (San Martín et al., 2008). This makes the wine industry an important sector for the Argentinean economy. Before 1980, driven by the domestic demand for inexpensive wines, the production of wine in Argentina was focused on supplying quantity rather than high quality. Nonetheless, the difficult economic situation in the country and the consequent decrease in wine demand led wine producers to penetrate new markets, shifting their focus from quantity to quality (Stein, 2008). While the initial strategy of Argentina’s wine producers was to advertise their wine as individual firms, the strategy that most helped them penetrate the international market was the creation of a “distinctive identity” as a country, which has enhanced the Argentina’s wine reputation.

In spite of the importance and reputation of the wine industry in Argentina, few studies have been conducted to identify the determinants of the Argentinean’s wine and their impact on wine prices in the international markets. San Martín et al. (2008) used a hedonic model to determine the characteristics affecting Argentinean’ wine prices in the United States (USA). Some characteristics or price determinants evaluated in their study are: influence of weather, geographic origin, reputation, quantity supplied, grape variety, special descriptors, and aging. Results indicated that the variables with a greater impact on wine prices are: grape variety, level of regionalization, name of the producer, aging, and special descriptors, which suggest that reputation and labeling matters.

To the best of our knowledge, after San Martin et al. (2008) study was published; no other research efforts have been undertaken to study the long run preference for Argentinean wine in the international market, specifically in the USA. Results of this type of studies could help wine producers make more accurate projections and adjustments to their wine production to meet the demand for specific wine attributes.

Building upon the work of San Martin et al. (2008), the aims of this study are: 1) to evaluate the determinants of Argentinean’ wine prices in the USA and to determine
the implicit price of wine attributes using a hedonic model, and 2) compare the results of this study with those of San Martin et al. (2008) to understand if there has been a change in consumers’ preferences for Argentinean wines in the USA.

Data for this research was obtained from the Wine Spectator magazine, updated to 2014. Results of this study are expected to contribute to the wine industry by providing quantitative evidence on how wine prices are currently being determined and how preferences have changed in the last six years.

References:
