**Bordeaux 2016 Abstract Submission**

**Title**
The price of perfection

**I want to submit an abstract for:**
Conference Presentation

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**Keywords**
wine, perfection, price, psychology

**Research Question**
The key objective of this study is to examine the premium that wine market participants attach to a perfect score awarded by Robert Parker

**Methods**
Descriptive statistics; univariate tests; Regressions; text analysis

**Results**
We find that a perfect parker score of 100 points triggers a premium on wine prices which is not explained by objective characteristics.

**Abstract**
The demand and thus the price of a bottle of wine depends on various factors (e.g., reputation, history, status) but one clearly stands out: quality. This situation is of course not specific to wine, the prices of most goods and services being affected, at least to some extent, by their supposed and/or effective level of quality. But wine retains some singular features that makes it quite unique. First it is an experience good, meaning that its quality can only be assessed by trying (i.e. by pouring and drinking) it. Moreover, wine is a “living product”, which evolves and generally improves over time. This makes it rather difficult, even for knowledgeable tasters, to determine precisely the level of achievement of a particular wine because such an evaluation requires not only to understand the wine at a specific moment but also to be able to forecast its evolution until it reaches its optimal drinking plateau. Wine is also a cultural good that has a very emotional attachment to it. Moreover wine...
The inherent complexity of wine and the key effect of quality on price explain why tasters and experts play such an important role on this market. Nowadays there are many experts that express their opinion on wines from various styles and regions of production. But one individual has acquired a very particular status: Robert Parker. As noted by Rosen (2012), he “has been called guru, emperor, pope […] and his name is now a verb (Parkerise) used for the creation of a style of wine that pleases his taste.” Robert Parker has set up a comprehensive model for rating wines. His methodology, combining a number of factors leads to a rating that varies from 50 up to 100 points. Within this range, he has specified six different categories, from unacceptable (50-59) to extraordinary (96-100) wines. Given his fame and the influence his tasting notes and scores may exert on the wine market, the substantial attention he has received in the economic literature is not surprising. But there is one fascinating aspect of Parker scores that remains to be unravelled. Until now (as of November 2015), he has awarded scores of 96 points or more to 394 red wines from the Bordeaux area and among them a total of 85 have received a score of 100 points. By definition, a score of 100 points corresponds to a perfect wine. Of course, the notion of perfection, especially in the context of a product such as wine, appears highly subjective and personal. The symbolic value attached to such a score is nevertheless extremely strong and is likely to have a tremendous influence on the price people would be willing to pay for having such iconic wines in their cellar. To illustrate this idea, in April 2012, Smith-Haut-Lafitte 2009 got a perfect score of 100 points and the price jumped by more than 100% overnight. We therefore believe that, in order to access a perfect wine, buyers could be ready to disburse a significantly higher price, the “Price of Perfection”.

In the present context, the concept of perfection transcends the simple definition of technical perfection and encompasses a sense of aesthetic and gustative ideal as well. There is also a strong emotional dimension associated with this concept: wine speaks to the soul and touches the heart, “wine is bottled poetry” (R.L. Stevenson). From this viewpoint, wine shares important similarities with cultural and artistic realizations. In the academic literature on culture and arts, the opinion is generally that perfection is an ideal that artists often pursue but which is impossible to achieve (Ginsburgh and Throsby, 2006, p. 38). However, in the case of wine, the creator is not just the human but it also includes the sky (i.e. the weather) and the soil (i.e. the terroir or the natural endowments). As such, the responsibility of conceiving a great wine lies less on the shoulders of the human that produces it than in the case of a piece of theatre or a painting for example. The conjunction of perfect natural conditions with perfect winemaker’s decisions is nevertheless perhaps even less likely to occur than in the case of other forms of human creations. This notwithstanding, determining whether a wine, or any other human creation, could be considered as absolutely perfect is beyond the scope of this paper. Actually as long as some people consider a wine to be perfect, the question of how this judgement affects their behaviour and their willingness to pay for it is of interest. A large number of papers have investigated the relation between quality and price in the context of fine wines, art works, movies, books, etc. But so far the question of the price of perfection has not been addressed in the literature. The wine market presumably offers the most appropriate laboratory to examine this issue: there is indeed a general consensus about the desirable attributes that a wine should display in order to be considered as good, excellent or even extraordinary. The problem is thus to find someone who is capable of assessing the multiple dimensions of a wine’s quality without letting his own preferences affecting his judgment. In the context of wine, it seems that the market has found its “guru” in the name of Robert Parker.

The key objective of this study is to examine the premium that wine market participants attach to a perfect score awarded by Robert Parker. More specifically, our goal is threefold. We first aim at quantifying as precisely as possible the price difference between perfect wines and other extraordinary (but still imperfect) wines. Of course, if a wine is truly perfect, it might be absolutely rational to pay an exceptional price for it. In a second step, we therefore examine what really distinguishes a wine that is perfect from one that is just extraordinary. In order to do that, we model Robert Parker scores on the basis of his tasting notes. This approach enables us to better understand the unique features of a wine considered as perfect by Robert Parker. We then exploit this model to further analyse the price premium and, in particular, to disentangle the portion of the premium which could be explained by the unique nature of a perfect wine and the part which could be attributed to the
psychology of the buyers.
We make use of a dataset that contains all Robert Parker’s tasting notes and scores for red wines from the Bordeaux area. In order to assess the relation between a perfect score and the price premium attached to it, we rely on a comprehensive database of auction hammer prices. The key advantage of auction price data as compared to other types of prices is that it effectively corresponds to the prices at which transactions have been concluded.