

A simultaneous estimation of reputations' interactions in the case of Washington State Wines

Florine Livat

Chair Wine Management

BEM Bordeaux Management School

Domaine de Raba – 680, cours de la Libération,
33405 Talence Cedex (France).

florine.livat@bem.edu

Tel +33 (0) 5.56.84.55.55

Fax +33 (0) 5.56.84.55.00.

Amy L. Mumma

Central Washington University

World Wine Program

400 East University Way

Ellensburg, WA 98926 (USA)

MummaA@cwu.edu

Tel (509) 963-1754

Fax (509) 963-1690

Abstract

Membership in the Washington Wine Commission is voluntary with wineries and growers assessed membership fees based on gallons produced and tons per acre. In 2007, the Commission tripled its fees to members from \$4.00 per gallon produced to \$12 per gallon and from \$2.00 per ton to \$6.00 per ton of grapes harvested. With this additional funding they did aggressive campaign promoting Washington wines in Florida State and in 2008, the plan is to target the state of Texas. Does it really make sense to become a member of the Washington Wine Commission? To answer this question from an economic point of view, we focus on reputation.

What are the interactions between the reputation of a collective wine region and an individual region? Specifically, how does the Washington State Wine umbrella reputation interact with and simultaneously determine the reputations of individual American Viticultural Areas (AVAs) within Washington State? Tirole (1996) has proposed a theoretical framework to analyze these interactions. A first empirical answer has been given by Gergaud and Livat (2005) who show in the case of Bordeaux wines that only the most reputed appellations benefit from the collective reputation of 'Bordeaux' as a collective brand. The aim of this

study is to answer these questions thanks to an econometric estimation of a simultaneous equation system.

In the wine market, the reputation can be tied to a collective region, individual regions and individual producers. Thanks to the empirical model developed by Gergaud and Livat (2005), we estimate the impact of the Washington State Wine umbrella on individual AVAs within this state as well as – simultaneously – the contribution of every individual AVA to the Washington State Wine collective brand. Quantitative measures of perceived quality, i.e. of reputation, allow a 3SLS simultaneous.

The empirical results show on the first hand that every AVA benefits from a positive impact of the collective brand "Washington State Wines" and that there is an inverse relationship between the intensity of the impact and the level of individual reputation. On the second hand our findings highlight that only the least reputed AVAs contribute to the collective reputation. We discuss the managerial implications of such results.