

# Consumer Preferences for Quality in Wine

*-Price sensitivity and perceived quality in the Swedish monopoly setting*

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## **Abstract:**

The purpose of this paper is twofold. We wish to investigate whether consumers can identify quality in wine and whether the price elasticity is constant over price and varieties. Using unique data on quality, price and sales volume that covers 90% of all wines sold in Sweden we are able to conclude that consumers indeed are able to recognize quality and that price elasticity is non constant, becoming significantly less elastic as price increases. Further, there is a significant difference between red and white wine regarding price elasticity.

The Swedish wine market is characterized as a monopoly that is not profit maximizing. Price competition is strictly forbidden and in fact stores are organized in a manner that aims at providing equal exposure to all products. Furthermore, advertising is highly regulated and generally can only include a picture of the bottle, price and critic reviews. This gives us a unique opportunity to estimate consumer response without any disturbances from price competition and store exposure and only relatively little disturbances from marketing.

In line with previous studies we treat prices on the Swedish market as exogenous due to the market size relative to the world market. As a measure of quality we include the grades from Swedish food and wine magazine *Allt om mat*. It is important to note that these reviews are published at the end of the year. Hence, the grades themselves have not influenced the consumers' decision. If the publication of the grades had been done at the beginning of the year, knowledge of the grades could influence the consumers' decision but this can be ruled out in our case.

We include a number of control variables. Among the effects we control for are cross-border shopping, media exposure, seasonal effects, regional differences and characteristics of the wine including ecological wines and Bag in Box packaged wines. While this is not a traditional hedonic analysis we also include variables on the sensory characteristics of the wine. This is done not to estimate implicit price tags on them but to control for specific taste preferences that can not be explained by price or quality.

We include only red and non-sparkling dry white wines, first and foremost because they make up the vast majority of sold volume. Our data set covers all twelve months of 2007 and all twenty counties in Sweden leaving us with a total of 150 000 observation.

**JEL Classification:** D12; D42

**Key words:** consumer preferences; hedonic analysis; wine; quality; price elasticity

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