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Corresponding Author

Philippe Masset

E-Mail

philippe.masset@ehl.ch

Affiliation

Ecole hôtelière de Lausanne

Co-Author/s

Name	E-Mail	Affiliation
Jean-Philippe Weisskopf	Jean-Philippe.WEISSKOPF@ehl.ch	Ecole hôtelière de Lausanne

Keywords

Status, reputation, quality, price, experience good, fine wine

Research Question

The main objectives of this paper are to identify variables that can be used to model a wine' status, and to assess the precise impact of status on price.

Methods

Hedonic regressions with measures of quality, reputation and status (including the famous 1855 Médoc classification and the mostly forgotten 1943 Pomerol classification).

Results

Quality, reputation and status jointly contribute at explaining wine prices. Status-related variables have a highly significant impact on Pomerol wines, while in Pauillac there are subsumed by the 1855 classification.

Abstract

The price of fine wines mostly depends on the combination of three key ingredients: quality, reputation, and status. A considerable literature has been devoted to the notions of quality and reputation. Weather conditions during the growing season, natural endowments (the so-called "terroir" in French), vineyard practices and winemaking techniques appear as the variables that have the most influence on a wine's quality. It is however often difficult to precisely measure them and to model how they exactly interact with quality. It has therefore become usual to use expert scores as a proxy for the unobserved quality of a wine. Reputation can be split into a collective and an individual component. Collective reputation typically refers to the goodwill from which a winery may benefit thanks to its localization within a specific region or AOC. Individual reputation, on the other hand, results directly from the merits attributable to a particular wine producer. This dimension of reputation is generally modeled on the basis of a winery's recent achievements in terms of quality. Malter (2014) is one of the few papers that examines the question of status and its impact on price in the context of fine wines. His contribution is extremely interesting for two reasons. First, his work reveals that the wine market constitutes an ideal setting to study the relation between status and price. The wines from Bordeaux are particularly appealing because of their homogeneity (the same varietals, winegrowing practices and winemaking techniques are used in the whole area), the existence of a classification system in the sub-region of the Médoc (which can be used to capture a wine's status), and a primary market that is organized in a uniform way for all Bordeaux wines (the "en primeur" market). The present paper builds on Malter (2014)'s work by exploiting a structural difference that exists between two famous wine appellations of the Bordeaux area: Pauillac and Pomerol. These appellations are quite comparable in terms of their size (1,200 hectares of vineyards are under production in Pauillac and close to 800 in Pomerol) and, more importantly, are widely regarded as the best appellations of respectively the left (aka the Médoc) and the right bank of the Gironde river. But they differ on one dimension: the existence of a classification system that is

actively used as a reference in Pauillac, and the absence of such a system in Pomerol. The grand cru classification of 1855 indeed includes all appellations from the Médoc and thus the village of Pauillac – which contains the highest concentration of classified growths and three of the five first growths of the Médoc. This classification was prepared by Bordeaux wine brokers for the Universal Exposition in Paris in 1855 and was originally not aimed at being used afterwards but persists until today. Interestingly, in 1943, the Vichy government also developed a classification system, which covered the Pomerol appellation as well as other major wine producing regions in France. This classification was based on the same methodology as the one used in 1855 for ranking wines from the Médoc (i.e., the most expensive châteaux were at the top) and it was supposed to become a reference. But the retreat of the German army and the simultaneous fall of Pétain's government in 1944 have made this classification disappear in the limbo of history.

The main objectives of this paper are threefold. We first aim at identifying variables, which can be used to model a wine's status. Our second goal is to examine the relationship between status, reputation, and quality. Third, we want to assess the precise impact that status has on price, while controlling for reputation and quality effects. In order to better understand the drivers of wine status, we have first interviewed a number of wine amateurs, connoisseurs and experts to identify wines that enjoy a particular status and, more generally, to get their opinion about the notion of status in the current context. We have not restricted these conversations to Bordeaux wines as we want to identify general attributes of status. Independently of the regions considered, wines with a particular status appear to possess features that distinguish them from their peers: the presence and/or the involvement of personalities (e.g., famous persons or a winemaker with a particular charisma); anecdotes and/or notable historical events (e.g., the introduction of new production techniques or marketing/communication strategies, the decision not to produce a vintage); links with the arts world (e.g., presence in movies or books, involvement of artists in the development of the label); and, perhaps more importantly, a strict and uninterrupted focus on quality (which is typically reflected in expert scores). Moreover another important takeaway from these conversations is the fact that status really only matters for those wines that are at the top. Stated differently, when it comes to status, one can distinguish between two broad categories of wines: "cult wines" and their followers. These features stand in almost perfect agreement with the theory (see, e.g., Podolny, 2010). In particular, Malter (2014) notes that "high status is scarce by definition", which implies that only a few can be at the top of a status hierarchy (Podolny, 2005).

When analyzing the influence of quality, reputation, and status on prices, it is of course crucial not to mistake quality or reputation effects for status effects. The issue is particularly difficult to control for as status is generally the outcome of a complex process that involves past reputation and quality. In this paper, we therefore proceed as follows. We use an approach conceptually similar to the one used in Cardebat et al. (2015) and evaluate the quality on the basis of the scores from several famous wine experts. We then combine lagged measures of quality achievements (as in Malter, 2014) and information from amateurs' opinion and purchase decisions to estimate the reputation of a particular château. The advantage of focusing on just two appellations is that we do not have to control for collective reputation effects, which could potentially be difficult to distinguish from individual reputation and/or status effects. Finally, we consider variables related to five dimensions to capture wine status, namely: (i) the presence and/or the involvement of some personalities in the history of the château; (ii) the existence of some anecdotes and/or notable historical events; (iii) links with the arts; (iv) exceptional quality achievements in the past; (v) the rank in the 1855 and respectively in the 1943 classification.

Our results show that quality, reputation and status jointly contribute at explaining variations in wine prices. Cult wines (i.e., the wines with the highest status) appear to be less sensitive to quality and reputation effects than their followers. The variables used to model the status appear as quite effective and are highly significantly correlated with prices. Unsurprisingly, the 1855 Médoc classification has a much stronger influence on prices than its 1943 Pomerol counterpart. Finally, the 1855 classification seems to subsume a substantial part of the explanatory power of the other status-related variables, while in Pomerol the reverse situation is observed with the 1943 classification having less impact on prices than the other variables.