

Ithaca 2018 Abstract Submission

Title

Wine Vendors as Surrogate Experts

I want to submit an abstract for:

Conference Presentation

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Keywords

fine wine, vendors, wine markets, expertise

Research Question

When a potential wine buyer lacks knowledge of a wine, how might wine vendors and aggregators of vendor information improve buyer knowledge?

Methods

Literature review and critical analysis of the information content from the largest aggregator of wine vendor information (winesearcher.com)

Results

Critical review of website content and ideas for improvement; some results yet to be determined.

Abstract

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Introduction

Among the thorniest problems in wine markets is the consumer's difficulty in knowing a particular wine, especially among fine wines (vs. commodity wines) which are less widely distributed, more regulated, more likely to vary by vintage, and more expensive. If one has not tasted a wine—and perhaps even if one has—one must depend upon the opinions of others for guidance. Even if one has tasted other products by the same producer—even the same wine in different vintages—that experience may have limited value in knowing a new product. This has led to a proliferation of wine evaluations available to consumers—numerous “experts” (usually published at their websites but widely circulated), social media postings, and consumer-oriented websites, perhaps with consumer tasting notes, such as www.winebeserkers.com (“world’s largest and most active online wine community”) and www.cellartracker.com. Moreover, one need simply monitor the promotions and websites from vendors to appreciate the prominent role that expert ratings, consumer reviews, and in-house reviews play in the effort to convince a consumer to purchase a wine. It is difficult to find offers of any other product that make such extensive use of various endorsements and commentary, and those that come to mind also tend to be “cultural goods” (e.g., books, films, theater, exhibitions; Throsby 2001, Towse 2010).

The Absence of Knowledge

An established challenge to Pareto efficient decisionmaking is asymmetric information. However, as the cost of

aggregating market information has fallen with the evolution of online media, the fine wine buyer's more challenging problem is the absence of knowledge: it is less that someone has more information that the buyer must somehow extract for an informed purchasing choice. It is that the buyer does not know the product, and no one else can supply that idiosyncratic knowledge.

Published research on consumer shopping behavior is vast, especially within the marketing literature. Amazon.com currently (January 2018) lists 9,067 titles of books on "consumer behavior" which drops to 7,151 titles if one adds the modifier "marketing". The more scholarly literature on the subject is similarly vast. Some of the shopping literature addresses the operation and efficiency of internet services that facilitate price comparisons for a given good known to the buyer (e.g., Iyer and Pazgal 1999, Maes et al. 1999). While all of this is potentially useful, the question we are asking is a different one. If the buyer does not know the product, to what extent can s/he depend upon the vendor to provide good recommendations—like an agent whose preferences mimic those of her principal? What can and do vendors know that consumers do not but would want?

The focus of this research is a discussion of what vendors can and could provide in order to assist consumer decisionmaking in this sense—namely, taking the consumer as close to knowing what she is doing with the understanding that, in the absence of direct knowledge of the product, she will fall short of that. Because it is arguably the most comprehensive single source of information about fine wines currently offered, the discussion draws heavily upon the vendor content available through New Zealand's Wine-Searcher (www.winesearcher.com; hereafter WSR) as well as the content provided by WSR itself. The discussion considers:

- Theoretical predictions of the information useful to the consumer
- Examples of information available from vendors surveyed by WSR
- Additional non-vendor information provided by WSR
- Analysis performed by WSR
- A critique of WSR-provided information and analysis

The discussion focuses upon the fine wine market so, in what follows, that is the intended meaning of "wine".

The fine wine consumer and "perfect information"

What does one want to know in considering the purchase of an unfamiliar wine? Theory provides some guidance:

- All available offers for a given wine
- Evidence of quality variation, if any
- Transaction cost (e.g., shipping cost and convenience)

Beyond this are prices for all available substitutes and complements, perfect information about the future, and so forth. Elementary theory assumes away the problem that is the focus of this analysis—knowledge of the specific product—since it assumes that the consumer knows the utility attached to units of the product.

Vendors may attempt to address that problem by providing potential buyers with a wide variety of information about its products. Conceptually, the unifying theme of assisting the curious buyer would be (a) comprehensive information about all close substitutes for a given wine (e.g., as measured by appellation, vintage, estate or vineyard, winemaker) and (b) comprehensive collection of all opinions of the particular wine. In learning of all the close substitutes, the consumer may find a wine that she knows that aligns closely with the unknown wine (e.g., from a neighboring property; vendors often promote a wine by noting the proximity of its production to some iconic wine or by noting other characteristics in common with an icon—for example, the winemaker). From the memory of the known wine could come an extrapolation. By learning the opinions of the wine from a large sample of fellow consumers, including some claiming expertise, one can see the range of opinion and look for common themes (e.g., prominent components of flavor, effect of decanting, evidence of bottle variation). This information may be a distant substitute for own knowledge, but it may be the best the consumer can do.

Surveying Vendors on the Worldwide Web

Currently the most comprehensive data on wine vendors and their offerings are data available from Wine-Searcher (hereafter WSR (www.winesearcher.com))—self-described as "the largest price and location data set in the wines & spirits industry" (website: <https://www.wine-searcher.com/reports.html>).

WSR surveys several types of vendors from around the world (producers, retail and wholesale merchants, auction houses, brokers) to determine their offerings and asking prices. For active wine shoppers, it is arguably the most useful search software available. This section provides a critical discussion of the information WSR offers (e.g., list of offers, WSR's vendor quality rating, wine quality ratings) in both its complimentary and Professional versions. Following the focus of this research, two themes on which it offers reports of special significance are its Vendor Ratings and its own Wine Quality Ratings.

Vendor Ratings

WSR does not disclose exactly how it evaluates vendors on its 1-5 (star) scale—from Trusted (5) to Removed (1)

with intermediate ratings of Dependably Good (4), Good (3), and Basic (2). Its published explanation notes the following considerations:

1. Accuracy and timeliness of price list for products on hand or quickly acquired
2. Security of ordering
3. Availability and accessibility (including mobile) by customer via published contact information (online, physical location address)
4. Timeliness of shipping
5. Use of mystery shoppers and feedback to WSr from actual customers

The focus of WSr's evaluation is the convenience and reliability of the vendor as suggested by its designations such as "trusted" or "dependable". Our focus pushes beyond this to ask the extent to which the vendor assists the buyer in getting to know the wine—that is, the information provided, beyond price and availability, that assists the buyer in deciding to purchase the wine. For its ratings, WSr seems not to include this potentially valuable service provided by the vendor and, in that sense, does not reward that vendor behavior or, through its ratings, provide an incentive for vendors to provide it. This may not be surprising since evaluating that content from a vendor website might entail website inspection beyond WSr's current capability, but nonetheless knowing that about a vendor would be valuable.

This section discusses what additional information about vendors might enhance considerably WSr's value to buyers seeking comprehensive information about a wine they do not know, indicating in particular vendors for whom that is a priority. This includes consideration of not only how informative a vendor's website is but also the effect upon its reputation for expertise of the portfolio of wines it offers and its attention to value.

WSr Wine Quality Ratings or Scores

The central question of this discussion is the extent to which a wine vendor—or perhaps an aggregation of information from vendors—might serve as a surrogate expert to advise the wine consumer of an unknown wine's quality. Given its remarkable data collection and processing, this is a role that WSr might be particularly well suited to fill.

If it has any of the relevant data for a wine, WSr provides a quality rating for it that is some aggregation of published ratings of various types (e.g., experts, cellartracker, consumer ratings it gathers). Aside from all the concerns about the meaning of ratings (e.g., Marks 2015), we do not know how WSr arrives at its ratings. Here is part of its explanation:

"Wine-Searcher collates scores from a wide range of critics, from influential single palates like Robert Parker and Jancis Robinson to publications like Wine Spectator, all adjusted for the 100-point scale. To generate a wine's average score, Wine-Searcher uses a Bayesian methodology to calculate a weighted average. This average score is calculated for specific vintages of a wine, as well as across all vintages." (

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While it is not without precedent (e.g., Cicchetti and Cicchetti 2014), adjusting scores from a variety of rating scales (e.g., 0-3, 1-5, 1-20, 50-100) to a 100-point scale introduces problems of its own. For example, if wine ratings are ordinal and not cardinal as with a psychological hedonic scale, then we do not know that the difference between one quality and another in a less compressed scale (e.g., 50-100) is a simple multiple of the difference in quality in a more compressed scale (e.g., 1-5). Using the (perhaps understandably) unspecified "Bayesian methodology to calculate a weighted average" could be an interesting method of aggregating published wine evaluations, but it difficult to treat it as such without knowing considerably more detail.

Here is an example of one such WSr average score that seems puzzling. The '15 Tatomer Spätburgunder rose' (Santa Barbara CA) has only one score of 90 from Vinous Antonio Galloni and no WSr user ratings. That yields a WSr rating of 89.

An example for a more established wine is the '01 Mondavi Reserve Cabernet Sauvignon. Here are the six individual components of the WSr score of 92:

1. 17/20: Jancis Robinson
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6. Eight WSr Pro user ratings (Just drinkable=1-5=excellent): 5 (1), 4 (6), 3 (1).

Opinions would vary widely about the relative reliability of any of the listed evaluations which is one of the fundamental challenges of such aggregation. It is not apparent how WSr arrived at its aggregate score.

It is noteworthy that the number of WSr user ratings can vary widely but seems to be small. This example of eight

for what one might consider an iconic American wine is one of the largest I have seen. Data on WSR Pro ratings are not available at the website.

One suspects that some subscribers are more likely—perhaps more culturally attuned—to rating wines online (e.g., American vs. French; one reason for choosing the Mondavi example above) so one wonders how that might bias the WSR aggregation.

This section discusses how WSR might enhance its aggregation of opinions about a wine so that it is more useful to the potential buyer.

Additional Topics

The analysis includes a critical discussion of;

- WSR's five years of "Market Data" provided for each wine—currently "average prices", the number of listed vendors offering the wine, and its search rank—and both its usefulness and room for improvement;
- The data available for WSR's Special Reports that are available for purchase (primarily targeted at sales to vendors); and
- The question of sponsorship—the vendor's decision whether to be a WSR sponsor.

Throughout the discussion, the focus is the extent to which wine vendors might come closer to acting as surrogate advisors to wine buyers through a critical analysis of this remarkable source of wine market data.

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