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## Vienna 2019 Abstract Submission

**Title**
On "Experiencing" Wine

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

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**Keywords**
wine, experience goods, search, neuroscience, experts

**Research Question**
How accurately does the popular view of wine as an experience good capture the process of consumer learning about wine and the consumer's choice between search and experience?

**Methods**
Critical review of literature on wine as an experience good and the larger question of alternative types of goods; application of neuroscientific analysis to wine learning

**Results**
1. Consumer learning about wine exceeds Nelson's view of "experience"
2. The evolution of online search will likely alter the consumer tradeoff of search vs experience

**Abstract**
On “Experiencing” Wine
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ABSTRACT
In studying the challenge of efficiency in wine markets, a number of economists have claimed that a major source of difficulty is wine’s nature as an experience good (Nelson 1970). This paper examines the idea of an experience good in the context of recent research on an individual’s ability to comprehend a good, identify its characteristics, and remember them accurately so that they are available for product recognition and evaluation. Evidence from a variety of fields such as experimental economics, psychology, and food science suggests that the move from ignorance of a good to knowing a good is more complex than the original idea of experience goods suggests. Since analysis of wine markets has sometimes been predicated upon accepting wine as an experience good, the discussion asks how that analysis might change if the relationship between wine and the consumer is more complex. The discussion also examines how one might sharpen the meaning of “experience good” and perhaps test experimentally whether that describes wine accurately. The paper closes with a discussion of extensions such as prospects for enhanced search assets that may affect the consumer’s views of “search” versus “experience” in

perceiving and evaluating goods.

Discussion

We are approaching the fiftieth anniversary of the publication of Philip Nelson's important paper on experience goods (1970). A Google Scholar search of the phrase "experience good" yields "about 26,800 results" and 7,939 citations of Nelson's paper. His research added another type of good to economists' taxonomy used to categorize goods according to the difficulties they present in achieving Pareto optimal resource allocation through market transactions. Taking the pure private good (PPG) as a benchmark (e.g., non-rival consumption, costless exclusion, perfect information/knowledge over time), goods that deviate from that ideal present difficulties for efficient allocation by markets—for example, whether the marginal benefit of the last transaction just covers its marginal cost with the potential for consumer and producer surplus accruing to all inframarginal transactions. Whenever the nature of a good violates the PPG requirements, we expect complications in the achievement of efficiency.

Nelson's premise was that consumers can perceive markets without knowing goods. They can learn about goods by bearing the cost of either collecting information ("search") or purchasing the good ignorantly and learning about it through "experience"—or they can do both, though he does not discuss that option. According to the experience good (EG) concept, a consumer can know a product once s/he has experienced it—that is, purchased and used it. After that initiation, the consumer knows the good.

A comprehensive discussion of the considerations that go into the consumer's information gathering is substantial and is beyond the scope of this abstract. However, one can understand that, by its nature, collecting information about wine tilts toward the experience approach: for example, relative to the performance characteristics of a hammer, one cannot measure the performance characteristics of a wine in a way that anyone can translate into enjoyment. Many researchers (e.g., Ashton 2014 and sources he cites) have cited wine as an experience good. A Google search of the phrase and word "'experience good' wine" yields "about 2,190 results" and 894 items citing the Nelson paper include the term "wine". It is more convincing to apply that to fine or premium wines (versus "commodity wine") because of their generally greater complexity and location-driven variety. In this analysis, the focus is fine wine with an acknowledgement that we are not defining that term precisely.

Appearing when it did, Nelson's concept reflects an early view of preference formation that now seems naïve. Since then, we better understand the process by which the brain processes external stimuli into some kind of reaction yielding (a ) an evaluation of the product, (b) its value relative to all other perceived products, and (c) the formation of a willingness to pay (WTP); for now, consider that neuroecononomics. While metaphors for the brain have evolved over time (e.g., https://mechanism.ucsd.edu/teaching/w12/philneuro/metaphorsandconceptionsofbrain.key.pdf.), our model of the brain is no longer a linear programming exercise which is better able to maximize the value of an objective with more and better information—fewer missing values and random errors. That view of consumer behavior is questionable in light of what we have learned about the operation of human consciousness and brain vs. mind.

The focus of this paper includes the "mind as computer" model implied by the EG concept. While information is necessary for rational decision-making, it is not sufficient: the consumer also need self-knowledge. How does more and better information translate into the consumer's improved knowledge of optimal behavior? What is her internal algorithm or choice of algorithm or improvement in algorithm that processes the information to lead to a better decision? Of course, memory plays a central role in the process; and, according to some, is the basis for our determination of "decision utility" (e.g., Kahneman 2017, 377-390)

While applying the EG label, Ashton (2014) has acknowledged that the EG concept is inadequate for describing wine because, even after purchase, the consumer may still not know the product. Compared to Nelson's example of canned tuna fish, wine is more difficult to know well enough to form a "reliable" WTP soon after purchase and, for fine wines, more expensive—one of the considerations Nelson highlights in the search vs. experience choice. Ashton favors characterizing wine as a "credence good" (CG)—a "special case of experience goods…as some time may be required before quality can be ascertained." (171)

However, even this characterization raises questions—that is, that CG is simply a special case of EG with the extra requirement of more time for evaluation. The literature on CG describes goods that are categorically different from EG. CG are more difficult to know because one depends upon not only one's own evaluative abilities but also outside expertise that might exploit consumer dependence on it (e.g., auto mechanics, technicians, medical professionals) (Dulleck and Kerschbamer 2006). Consumer evaluation of quality depends upon the trustworthiness of the supplier—thus, the name "credence".

The continued search for a more appropriate category of goods to apply to wine reflects the inadequacy of the EG tag. Opting to apply CG, while questionable, reflects Ashton's understanding that knowing wine may take

considerable time and perhaps remains work in progress. However, the application still falls short.
One of the benefits of this discussion is the exploration of the goods taxonomy that suffers from a lack of precision. While we have been able to formalize some distinctions in the taxonomy such as the difference between PPG and pure public goods (e.g., Samuelson 1954), formal characterization of additional goods types (e.g., through creation of enhanced utility functions) has been limited.
The discussion in this study addresses the nature of wine that makes evaluation and formation of WTP so challenging. A critical look at Goode's analysis (2016) illuminates the problem, especially the subjectivity of wine appreciation that limits the value of others' evaluations (e.g., experts), beyond the difficulty of simply knowing how to interpret those evaluations (e.g., Marks 2015). We are learning more about how the brain processes external stimuli to experience flavor and, beyond that, to evaluate quality (e.g., Shepherd 2017 for the example of wine), but much is missing.

Why It Matters
Nelson's focus was the consumer's need for information which, combined with knowledge, affects decision-making. Anything that complicates decision-making or raises barriers to more and better information and knowledge inhibits decision-making.
We might hesitate to accept the EG model because it oversimplifies the challenge of evaluating wine. If wine is an experience good, then the consumer is done after trying it: but we know that is naïve. If that is naïve, then perhaps we need only provide the guidance from expert experience: but we know that trust in that is misplaced. A core issue is whether the curious consumer can depend upon others' experiences (e.g., experts' opinions) to substitute for her own. If wine were an EG, then this might help. However, that raises the question of whether one can simply import other's experiences as one's own; considerable literature says one cannot (e.g., Kalva et al. 2014, Lim 2011). However, if wine is not even an EG, then the story is more complicated.
Does the analysis from asymmetric information apply here? If consumers cannot evaluate wine, is that like difficulty evaluating used cars? A difference is that, in the lemons example (Akerlof 1970), the seller knows more than the buyer. With wine, the vendor may know more about the product, but s/he does not necessarily know more about what the buyer wants to know—how much she will enjoy the wine. No one knows better than the buyer what s/he enjoys, although the vendor can try to influence that.
As with the adverse selection model, consumer ignorance likely leads to a smaller market. However, the process leading to that is different. Consumer ignorance does not lead to decreased supply because consumers pay too little so that so that fuller information would restore the market. Understanding wine is complicated so that the evolution of increased wine appreciation can bolster the market—learning more about how we learn what brings enjoyment. The increased educational effort by the market—less from producers than from consumer advocates such as the early Robert Parker (in contrast to the emerging "ratings as marketing")—bolstered wine appreciation and understanding. Additional enhancements such as more efficient online search—for example, aggregating expert opinions (e.g., Cardebat and Paroissien 2015—an example of an early effort) and consumer reviews, chat rooms, better understanding of neural processes—may be the next phase to advance the market.

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