Valuing Collective and Firm Reputation in the Wine Market: My Name or Our Name?

Introduction and Problem Statement

For most food products, quality cannot be assessed until after consumption, inducing consumers to rely on expectations on producers' reputation for quality. In the wine market, reputation is collective *and* private: the name of a winery identifies the skills of its winemaker(s), while the production region identifies a group of wineries with similar weather and "terroir" conditions, which influence the quality of the grapes and ultimately the wine (Wilson 1998). The wine industry recognizes the value and importance of collective names and the associated reputations, as testified by the inflation in the number of geographical appellations and producers associations. Arguably, the determination of an optimal investment and marketing strategy for a winery necessitates a quantification of the relative importance of firm and collective reputation effects in determining consumers' valuations and choices. The existing hedonic literature seeking to identify the determinants of wine prices primarily focused on the effects of current quality (as measured by blind tasting scores), and the estimation of regional price premia, with little emphasis on firm's reputation dynamics. A notable exception is the work of Landon and Smith (1998), which showed how past quality (a proxy for firm reputation) is a better predictor of Bordeaux wine prices than current quality score. More recently, Costanigro et al. (2007) showed that the wine market is segmented by price, and implicit prices of wine attributes differ across markets. In this article we extend this line of research to test the hypothesis that, because of differences in consumer knowledge and attitudes across market segments, 1) collective reputation is the primary determinant of wine prices for commercial, inexpensive wines; and 2) the reputation associated with the name of the winery is the most relevant price determinant for premium, expensive wines.

Data, Methods and Expected Results

A dataset consisting of 3,847 observations was collected from the Wine Spectator. The panel spans ten years (1991-2000) of quality scores (assigned by blind tasting) for California wines. For each wine, the dataset records the producing winery, the American Viticultural Area (AVA, or region of production), the vintage, the grape variety and the price. The overlapping, nested geography of AVA appellations complicates the estimation of AVA-specific collective reputation. By focusing the analysis on Napa Valley, and the twelve AVAs existing *within* it, we circumvent the problem. Using indices of past quality scores (for each firm and each AVA), a hedonic model will be estimated via quantile regression. The statistical technique (pioneered by Koenker, 1978) estimates conditional *quantile* functions (as opposed to the classical conditional *mean* of OLS), thereby allowing a cross-market comparison of the significance and magnitude of the price-effect of collective and firm reputation. Implications for the wine industry best strategies will then be discussed.