The Economic Value of Place Names in the U.S. Wine Market:

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Place names or geographic indicators are a major marketing issue that has become more important and more complex with increased globalization. The issues arise especially for food and beverage products where characteristics of particular regions are most likely to imbue products with special characteristics that are difficult or impossible to duplicate outside the region of origin. With the spread of people and product styles, however, some place names have become used without legitimate association with geographic regions of origin, and the use of place names for products not of the place named raises many concerns. If consumers are misled and believe that the product is from the named place it can reduce the value of the place name as a brand conveying information. The broad sense of the name, as a brand, is diluted when it is used for products that do not have the key characteristics of the place.

Examples of such misuse of place names include Champagne, Port and Sherry for U.S. wines. In this paper, we estimate the price effects of misuse of the place name Champagne using the data set including U.S. wines as well as French wines, which are collected from the electronic data base of Wine Spectator. First, to assess the price effect of misuse of the name Champagne U.S. wines labeled as “Champagne” are compared relative to other U.S. sparkling wines that do not misuse the term Champagne. We then expand the data base by including the prices of wines from Champagne and other French sparkling wines (that do not use the place name Champagne), and conduct empirical analysis. Unfortunately, data to support analysis of the price effects of misuse of Port and Sherry names are unavailable. Given that the term fortified wine is not an accepted alternative name and the term dessert wine includes many extraneous wines, there is no data matching with wines of comparable types made in the United States that do not use the names Port and Sherry. (Producers and marketers in the United States have not used an alternative name, such as “sparkling wine” or a variety designation that conveys information to consumers about the character of the wine in the bottle.) For Port and Sherry, we therefore focus the statistical analysis on comparing prices of wines from Portugal and Spain which correctly use the place names and those wines from the United States that misuse these place names.

There are many studies, encompassing empirical data analysis and conceptual discussions, attempts to assess the value of wine appellations and other geographic indicators for food and beverage products. However, we have found no prior literature that assesses the value of geographic place names that are used to refer to place that are not the origin of the wine labeled. Our preliminary analysis indicates that the misuse of the Champagne place name has a strong and negative impact for market price, holding constant a whole host of explanatory variables including region, vintage and rating score that themselves also have significant impacts. We believe our study, although limited to Champagne (and Port and Sherry to some extent), provides some insight on this important issue.