A Reconsideration of Wine as an “Experience Good”

Denton Marks

Department of Economics

University of Wisconsin-Whitewater (USA)

ABSTRACT

At the heart of any transaction is the good involved (perhaps both goods involved if we allow for barter). What is it that defines the nature of a good beyond the tautological definition of that which is transacted? Economists have identified different types of goods along a variety of dimensions—for example, their relationship to changes in market parameters (e.g., complements/substitutes, inferior/normal), to the nature of the parties transacting (final goods, intermediate goods), to the capacity to confine a transaction to a single buyer (public/private), and the transactors’ information about and knowledge of the good. Moreover, beyond all these categories, goods can fall into more than one—for example, an inferior good that is a substitute for some other good.

Most of the world’s wine production falls easily into existing categories because that is one goal in its production. “Commodity wine” is designed to be easily understood and identifiable, much like most of the beverages with which it competes. While it may potentially reflect some of the variations in characteristics that can contribute to the complexity of wine (e.g., differences in blends, differences reflecting changes in vintage and source), the goal is often consistency and homogeneity so that consumers know what they are buying. Some have derisively referred to it as “cola wine” (e.g., Aylward 2008).

At the other extreme of the variety of wines available, a small proportion of global production challenges consumers to know what they are buying: we shall call these “premium wines”. The range of wines available in a major economy fall all along the spectrum from “commodity” to “premium” so the relevance of the discussion to any particular wine will be a matter of degree.

To some extent, understanding premium wines involves issues of asymmetric information where the producer knows considerably more about a wine’s origins, production, and final characteristics than the consumer, and the consumer perhaps hopes to learn that information. Beyond that, however, some wines challenge the consumer’s ability to know them and therefore to form a meaningful willingness to pay (WTP) for them.
In the present research, the distinction between information and knowledge is important. Much of the discussion of the consumer’s problem in the wine market focuses upon the role of information. This paper argues that the challenge is (a), when the motive is one’s own wine consumption, the consumer’s lack of knowledge, and (b) discerning the consumer’s other possible motives in buying premium wine.

Recognizing the challenge to the wine consumer’s knowledge of what she is buying, some excellent research has seemingly turned to Nelson’s (1970) concept of “experience goods”—goods that must be “experienced” before they can be accurately evaluated. Nelson’s original concept of experience goods is that they are sufficiently complex that the consumer must experience them to gain knowledge of them. He uses examples like canned tuna fish and home appliances. He also allows for the importance of accessing expert opinion such as Consumer Reports.

Much of the wine research predicated upon the idea of experience goods looks at the relationship between some external measure of quality such as chateau reputation or expert opinion and price (e.g., Hadj Ali and Nauges 2007; Hadj Ali, Lecocq, and Visser 2008): unable to know the wine before buying it, consumers use this external information to guide their WTP with better ratings correlating positively with price. However, while this information may influence WTP, it does little to improve the consumer’s knowledge significantly. This may help explain why the evidence of the impact of expert opinion upon wine prices is mixed and positive correlations tend to be weak: this information may contribute little to the consumer’s knowledge of what she is buying.

This paper questions the idea that premium wine is an experience good—not that it overstates the complexity of the consumer’s problem but that it significantly understates it. For example, Nelson’s original examples like home appliances are considerably easier to know than these wines. Once one buys a refrigerator, one understands it and most of its competing brands. Very few competing products represent a significant challenge to understanding all refrigerators—and similarly for the kinds of goods Nelson describes. The idea that one can know a type of wine by buying one in the same sense that one can know a type of refrigerator by buying one seems misplaced.

The paper considers and critiques the kinds of information available to the wine consumer and the extent to which they contribute to consumer knowledge at the time of purchase--information provided on the product, peer information (e.g., word of mouth, Cellartracker), information from the supplier, and especially expert information (e.g., tasting notes, ratings). For example, are experts that use potentially hundreds of scores (e.g., Parker with 50-100, ranges, plusses and minuses) more helpful or less than experts that use three or four (e.g., Guide Hachette)? What is the relevance of price to scores (e.g., are two St. Emilion Grand Crus with Parker scores of 87 but very different prices equally good?). It also discusses the factors which, after the purchase, complicate the consumer’s knowing what she will experience
when she actually consumes the wine because of uncertainties such as travel shock, bottle variation, systemic flaws (e.g., brett), the conditions at the time of tasting, and the challenge of knowing how a wine will age. It asks: with all the uncertainty, how can the consumer know what she is getting when she opens a bottle of wine?

It argues that one consideration missing from our understanding of the wine purchase and consumption decision is its resemblance to playing a lottery, in part because of the degree of uncertainty we face in buying premium wines.

The paper also considers evidence on consumer knowledge of wine—for example, Hodgson’s research on judges at wine competitions (e.g., 2008, 2009) and the absence of data on successful blind tasters. If wine is an experience good, then those with vast experience should be able to identify the wines they are drinking just as they could identify and operate a refrigerator. It also considers a critique of blind tasting that highlights the complexity of knowing what we taste (Cohen 2011).

As noted, the paper also considers motives for purchase other than own consumption (e.g., gift giving, status seeking) and how that might affect WTP.

The paper closes with a re-characterization of the consumer’s wine purchase decision.