Reputation and Quality Effects on Wine Prices: A Comparison Between En Primeur and Bottled Bordeaux Wine

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Abstract

Introduction

The International Office of Vine and Wine reports that the world total viticultural area reached 19.55 millions acres in 2000. Two-thirds of this surface is located in Europe (mainly in France, Greece, Italy, Portugal and Spain) and represent 56% of the overall wine growing. France remains a leading actor in the world wine market despite the sharp competition following the emergence of new-world producers (South Africa, Chile, New Zealand among others) of high quality wine. Even if the market share of France in the global wine production in volume has decreased from 38% in 1990 to 26% today,\(^1\) the most prestigious Bordeaux wines,\(^2\) namely the ones with a long-time established reputation like the *Grands Crus Classés*, remain the most famous and among the most expensive wines worldwide. Could it be that reputation is better valued than quality in the Bordeaux wine region? We propose to address this question by analyzing two distinct Bordeaux wine markets: the ‘en primeur’ market and the more traditional market for bottled

\(^1\) *La revue du vin de France* n°451, May 2001.

\(^2\) From a total value of sales of 3.1 billion euros in 2001, 1.2 billion come from wine sold on foreign markets corresponding to a volume of 2.5 million of hectolitres (source: Conseil Interprofessionnel du Vin de Bordeaux).
wine.

The en primeur market, which is a kind of ‘future market’ specific to the Bordeaux wine region, occurs every year in spring. En primeur refers to the process of buying new wine several months after the grape harvest while it is still in barrel. This market allows producers to get liquidity before the wine is bottled,\(^3\) but it also allows buyers to get rare wine at potential bargain prices, hence attracting more and more financial speculators (see Hadj Ali and Nauges, 2002). The en primeur market in Bordeaux region may generate up to 600 million euros a year.\(^4\)

The opening of the en primeur market constitutes one of the most important events on the Bordeaux market place. The new vintage is offered for the first time and the prices, set by the producers themselves, are revealed. Little is known about the way producers choose these prices. If prices are expected to vary with objective characteristics such as appellation and ranking,\(^5\) there is however a large uncertainty still attached to future quality as the wine is not yet matured. Indeed, information regarding future quality of the wine mainly come from the observation of the climatic conditions that prevailed during the growing year.\(^6\) When the wine has been bottled and released on the traditional (competitive) market, some additional information regarding quality may be obtained through personal or experts’ tasting. Is there any significant effect of the introduction of competition and the new information on quality?

Using panel data, we show that reputation and quality have very similar impacts on the en primeur price and on the price of bottled wine. Reputation, that we choose to measure by the

\(^3\)Payment occurs at the time of the en primeur sales and bottled wine is delivered one to two years after.


\(^5\)The appellation is a regional designation and the rank is a system of classification specific to the Bordeaux region.

\(^6\)Tasting sessions involving wine experts may also occur before the opening of the en primeur market however we do not observe such judgement or grade in our data set.
classification of wine (both in terms of ranking and appellation), is found highly correlated with the en primeur price chosen by the producers but ranks and appellation are also highly priced by the consumers in their purchase of bottled wine. Reputation is highly valued in particular for the wines belonging to the most famous groups namely the Premiers Grands Crus Classés inside both the 1855 and the Saint Emilion classifications. Furthermore, the vintage year (a proxy for climatic conditions of the growing year) is found to be a significant determinant of both prices (en primeur price and the price of bottled wine) while the current quality of each bottled wine as measured by experts’ ratings is not highly valued by consumers.

Results about en primeur price are new in this literature, while our results on bottled wine confirm the findings of Ginsburgh, Monzak and Monzak (1994), Combris, Lecocq and Visser (1997) and Landon and Smith (1998), who also analyze price data from the Bordeaux wine region. These three studies agree on the significant impact of objective characteristics (vintage, region etc.) and reputation (as measured by ranking) on wine price on the one hand, and find a moderate influence of current quality (as measured by experts’ grades or sensory characteristics) on the other hand.

The paper is organized as follows. In Section 1, we define precisely what we call reputation and quality. In Section 2 we present the data and make some descriptive analysis of wine price on the en primeur market and on the market for bottled wine. Econometric analysis addressing the issue of reputation and quality impacts on wine price for the en primeur market and for the market for bottled wine are detailed respectively in Sections 3 and 4. Section 5 summarizes the main results and concludes.
1 Reputation and quality

The impact of the characteristics of a good on its price is commonly addressed through the estimation of a hedonic function. If the good is traded on a competitive market, the estimated coefficients from the regression of price on characteristics can be interpreted as the valuation of the good attributes by the consumers. This interpretation is obviously erroneous in the case of en primeur wine as the price is set by the producers themselves. The estimated parameters will instead measure the correlation between the price set by the château and the characteristics of the wine.

In the Rosen (1974) framework, the characteristics used in the hedonic function should be the ones for which consumers have perfect information. Objective characteristics such as appellation, rank and vintage (or harvest) year are good candidates as they are easily accessible to the consumers through the label.

In the present paper, we call reputation the combination of appellation, ranking and name of the château. We do not follow the approach used by Landon and Smith (1997, 1998) and Oczkowski (2001), who measure reputation through lagged quality scores, because we are primarily interested in measuring the impact of the long-time established fame of Bordeaux châteaux on the price of wine.

Indeed, the first system of ranking in the Bordeaux region dates back to 1855. It was during the Exposition Universelle that Napoléon III, the Emperor of France at the time, invited Bordeaux’s wine brokers to rank the region’s wines according to price. They eventually agreed upon a five-tier, Classed Growths or Crus Classés (CC), classification system ranging from