In markets where quality is important but not observable, and where large numbers of producers offer differentiated products, it seems difficult to see how orderly pricing comes about. The producers who set prices cannot know whether their quality information will permeate the market or, if so, the extent to which it will be taken seriously by other market participants. Facing these problems of hidden information and large numbers, producers require guidance when setting prices. In many such markets, critics provide this guidance. They address the hidden information problem by publishing information about unobserved product quality (i.e., they perform an informing role). They also address the large numbers problem by providing certain producers with more consistent coverage over time (i.e., they perform an identifying role). With more consistent coverage, producers know that their quality information will be taken more seriously and are able to price accordingly. Taken together, these two roles suggest a baseline correlation between list prices and product quality that is moderated by the extent of a producer’s history of critical coverage. This prediction is supported in an analysis of price and quality data for a sample of New World wines sold into the U.S. market between 1987 and 2001. While problems associated with attaining and sustaining orderly social arrangements have long been a focus for sociology (Durkheim 1947), the issue of order within markets is a more recent subject of intense sociological scrutiny. Taking economic models as a point of departure, efforts are being made to refine explanations of how markets operate. The aim is to show how different elements of a market’s structure influence participants in ways that foster the orderly arrangements that tend to be assumed in those economic models (Coleman 1984). One of the specific issues attracting increased sociological attention is that of pricing (Baker 1984; MacKenzie and Millo 2003; Uzzi and Lancaster 2004; Zuckerman 2004). Although it is tempting to see market prices as resulting directly from the abstract and impersonal forces of supply and demand, there is increasing recognition that the ‘Walrasian auctioneer’ that adjudicates these forces is rarely evident (Burt 2005; White 1981). As such, sociologists are paying close attention to both the actions that generate the prices that are posted in product markets, as well as the features of those markets that lead to increased order in price-setting behavior. For producers selling into markets, one of the critical decisions faced is how to price their products. In many settings, product quality is an important factor in the (explicit or implicit) valuations by consumers. As such, information about product quality ought to have a noticeable influence on the prices that are set. When products are differentiated along some dimension like product quality (q), a simple application of economic theory suggests that an orderly market will settle on some schedule whereby \( p=f(q) \), \( f>0 \) (Rosen 1974). If producers know that their product quality information will permeate the market, and if they know how the market values increments to product quality, setting prices becomes straightforward: determine q and then set price according to \( p=f(q) \). This stylized account assumes that information about every product’s quality will permeate the market, and that market participants will react in the same predictable way to each quality demonstration. However, two information problems make these assumptions problematic. Nelson’s
(1970) discussion of experience goods reminds us that direct information about product quality is often unavailable to market participants. This problem of hidden information means that information about each product’s quality will not necessarily be in the market. A second problem of too many products and producers means that even when product quality information is available, over-populated markets lack the ability to process all of it effectively. This large numbers problem taxes the limited information processing capacity of a market and its participants (Arrow 1974; Simon 1997). Sociologists stress that these sorts of information problems can thwart the establishment of orderly market arrangements (Baker 1984; White 1981). Without some form of guidance, producers cannot know whether and how their quality information will be processed and so cannot set prices that both reflect underlying product quality, and are subsequently ratified by consumers when they make their purchases. A key issue becomes that of understanding where pricing guidance comes from. Our aim in this paper is to further develop the sociological treatment of price determination in quality-based markets. Following White and White (1993), we propose that in fluid market contexts, guidance is often provided by critics (or other analysts). White and White’s analysis of the market for French paintings in the 17th through 19th centuries documents the rise and ultimate demise of a status hierarchy built around an Academic system, which was ultimately replaced by a dealer/critic system. This new system of mediation became necessary because of the problem of achieving order in large numbers market settings: “this [dealer/critic] framework provided more widely and generously for a larger number of artists.” (pg. 151) What allowed for this provision was the cadre of critics who emerged to provide both “visibility” and “publicity” (pg. 150) for the large and evolving group of professional painters: “Whether they praised or castigated, the critics publicized the calendar of events, the dealers, painters and the works of art, informing a large readership of this extra-Academic activity.” (pg. 96) Note how this identifying role differs from that which is typically ascribed to the critics that cover quality-based markets. It is more typical to emphasize how they solve the hidden information problem by providing information (in the form of reviews and ratings) about unobservable product quality. In White and White’s (1993: 121) analysis, however, “both favorable and unfavourable criticism played a part in bringing [painters] to public notice.” While “the laudatory review became a substitute for a Salon medal … the negative review was no less important in drawing attention to a painter.” (pg. 150) Their analysis suggests that critics perform two roles that help to establish order in markets where product quality is important but not observable, and where large numbers of producers struggle to make their quality demonstrations relevant. Critics provide the information that addresses the problem of unobservable product quality. When published reviews are deemed credible, producers may set prices that anticipate how the critics will evaluate their products. In a broad study of numerous product categories reviewed by Consumer Reports, Caves and Greene (1996) find that the median rank correlation between quality scores and prices is between 0.27 and 0.38. Although this informing role of critics implies a baseline correlation between published quality ratings and posted prices, the relationship is not invariant across products or producers (Tellis and Wernerfelt 1987). What has been missing in previous analyses of the role played by critics in price formation is a response to the key question implied by White and White (1993): to what extent is each of the many producers allowed to price as if its product quality matters? The mere presence of quality information in a market does not fully resolve its information problems. Rather, problems often persist due to the very large number of products and producers that are in the market at any one time.
In large numbers scenarios, producers cannot be sure that information about their own product quality will permeate the market. At the same time, limitations on a market’s ability to process large amounts of quality information means that producers may not know how the market will process their own product quality information. We propose and test the idea that, in addition to providing quality information, critics also help to identify the more relevant set of producers. In this respect, Zuckerman (1999; 2003) shows how the distribution of legitimacy across firms is influenced by the coverage decisions taken by investment analysts. Firms that attract the right kind of critical attention are more likely to make it into investors’ active consideration sets. Similarly, Shrum's (1991; 1996) analysis of theater critics at the Edinburgh Festival Fringe shows that irrespective of the quality of the reviews, simply being reviewed by a critic increases the probability that an act will be noticed by potential audience members. This conclusion is supported by Ravid's (1999) demonstration that the number of reviews that a film receives matters more for its ultimate commercial success than does the content of those reviews. Building from these observations, we suggest that the identifying role of critics derives from their coverage decisions over time. Critics come to identify the more relevant producers by consistently providing them with published reviews over longer periods of time. A stronger history of critical coverage increases the likelihood that critics will review a current product offering, and that the market will process that quality information once it is published. These two facts constitute crucial guidance for producers when setting prices because they indicate the extent to which specific information about product quality should be reflected in those prices. Producers with more critical exposure know that their product quality information is likely to reach the market and be taken seriously within quality games. Taken together, the informing and identifying roles suggest a baseline correlation between list prices and product quality that is moderated by a producer’s history of critical exposure. We develop the logic supporting this prediction in the next two sections. This is followed by an analysis of price and quality data for a sample of almost 9,000 New World wines sold into the U.S. market between 1987 and 2001. ‘New World’ is a shorthand expression for a cohort of seven wine-producing countries that are not among the traditional European producers; these being Australia, New Zealand, Argentina, Chile, South Africa, Canada and Israel (Allen et al. 1998; Arkell 1999). In 1987, the volume of wine exported from these New World countries amounted to less than 1.5 percent of that exported from the four largest Old World wine countries (France, Germany, Italy and Spain). By 2001, the situation had changed dramatically – exports from New World wine countries were almost 25 percent of Old World country export levels. This dramatic increase offers an opportunity to examine price setting in a quality-based market wherein a large and almost unbounded cohort of producers was emerging on the world scene.