Quality Segmentation in Brazilian Wine Market: Evidences from a Production Function Estimation
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While wine is traditionally viewed as a product typical of a European and Mediterranean wine producing countries, in recent decades vineyards were developed in all continents, where US, Australia, South Africa Chile and Argentina are the most noticeable producers. Consequently, wines have been classified as coming from the Old World (traditional European and Middle Eastern producers), and New World (countries who developed their tradition in wine making more recently). Apart from individual taste, these two origins clearly differentiate in the marketing strategy adopted: mostly based on the place of origin in the Old World, through the use of Appellation of Origin labelling; and mostly based on the vine grown in the New World. Nonetheless, quality segmentation seems to have become more frequent in the New World, as it allows producers to compete in different segments of the market.

In this work, we use data from Brazilian wine producing firms (a New World production) located in the wine production region in Rio Grande do Sul State, a region producing about 90% of all Brazilian wine. Brazilian firms have recently started to differentiate products by origin-based quality signals, supplying the markets with multiple products, increasing the segmentation of the market. Within this particular wine district, we estimate a production function for different wine categories simultaneously, identifying the different factors contributing to the changing marketing strategy in the study area. The results will enable us to obtain a better understanding on the production function of wine in general, whilst enabling us to have an insight of firms’ dynamics in a context where wine markets start to be segmented by quality.