Risk Taking when Buying Wine: an Experimental Investigation
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Business summary

Accumulated theoretical and empirical evidence suggests that wine prices depend on quality, reputation and sensory characteristics (Combris et al., 1997 and 2000; Oczkowski, 2001; Jones and Storchmann, 2001; Schamel and Anderson, 2003; Cardebat and Figuet, 2004; Lecocq and Visser, 2006). Generally, price is also an important cue for quality when there is some degree of risk of making a wrong choice (Cox and Rich, 1967; Szybillo and Jacoby, 1974; Horowitz and Lockshin, 2002). Beyond the attributes of the wine and the situation, different consumers choose wine differently. Given the incomplete information on quality, price is used in the purchase of wine to overcome any perceived risk. Risks include functional, such as the taste of the wine or the physical aspects of the product, social, such as being embarrassed is the quality is not adequate, financial because of the cost of the product. Gluckman (1990) contends that the act of purchasing wines is clouded with insecurity and many wine purchases therefore involve risk-aversion (Mitchell and Greatorex, 1988, 1989).

Buying a bottle of wine is often marked by expectations and uncertainty as to its quality. Spawton (1991) suggests that with the exception of a few connoisseurs, most wine purchasers are highly risk-sensitive and their subsequent purchases are governed by risk-reduction strategies.1 Consumers are also confronted with an enormous amount of changing information on brands and vintages which impacts on perceived risk (Speed 1998).

Different people will respond to similar risky situations in very different ways. Numerous experiments have been undertaken by psychologists and others in attempts to define profiles of risk-taker and risk-averse persons. Differences in the behavior of individuals facing similar risky situations could be partially explained by the individual’s family background, education, position, prior experience, and geographical location (Kogan and Wallach 1974). The conventional anthropological theory is that individuals are guided in their choice between risk-avoiding and risk-taking strategies by their culture. A renewed interest in this area of study is linked to the work of Hofstede.2

MacCrimmon and Wherung (1986) provide an extensive survey of theoretical and empirical studies directed towards the understanding of risk behavior. Some of this research focuses on the riskiness of situations, while other studies focus on the willingness of people to take risks in such situations. An important amount of research has been devoted to study how people recognize, evaluate, and respond to similar risky situations that have been framed in different contexts or across different countries (Loubergé and Outreville, 2001).

The study of human choice behavior provides a focus for considering this issue in different contexts. The experiments reported in this paper try to shed some light on this issue by analyzing choices within the framework of a purchase decision for a wine bottle. It provides an example of a study of human behavior when aversion towards loss is considered. The experiments were conducted with graduate and

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1 Risk-reduction strategies in the purchase of wines include, selecting a known brand, recommendations, advice from retail assistants, undertaking wine appreciation education, pricing, packaging and labelling, getting reassurance through trials such as tastings and samples (Mitchell and Greatorex 1989).


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undergraduate students using a questionnaire similar to the one originally tested by Loubergé and Outreville (2001).3

The context is the decision to purchase a bottle of wine (the price of which varies from $x to $x+n) assuming that there is a probability (defined in the question) that the wine may have a functional risk (it is corked or corky). The purchase is considered in a tax-free zone of an airport rather than in a wine shop where the consumer usually can bring back the bottle. The experiment is defined in two phases: 1) there is no possibility to hedge the potential loss (no insurance) and 2) there is a possibility to buy an insurance contract (the price is determined in the question) to cover for the loss.

The paper presents a detailed explanation of the context that is used for the experiments and the experimental designs. The experiments reported in this paper provide some evidence on risk-taking when purchasing wine and show how individuals actually behave when they are confronted by the prospect of a potential loss.

Keywords: Wine purchase, risk behavior

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3 A similar kind of questionnaire was used by Hershey and Schoemaker (1980).