



Do Expert Ratings or Economic Models Explain Champagne Prices in Scandinavia?

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This analysis deals with the retail prices of champagne sold on the Scandinavian markets. The markets for champagne in these countries are rather small, of course, although the consumption of still wines has increased relatively fast during the last decades. A large number of French champagnes are available to the Scandinavian consumers, but there seems to be less price competition in the market concerning champagne as compared to still wine. The demand for champagne is most likely less price sensitive as it is usually perceived as a luxury good which to a large extent is bought on special occasions like weddings, New Years Evening, etc. Thus, the demand must be assumed to be price inelastic but of course the prices must be assumed to reflect the underlying quality of the champagnes. However, because champagne is bought with low frequency, many consumers do most likely not have/seek full information on the champagne. Some consumers rely on the reputation of particular brands, e.g. 'Les Grandes Marques de Champagne', some consumers choose to gain information from sensory rating of champagne, e.g. Robert Parker or Wine Spectator. In fact, the majority of champagne dealers use points given by Parker and/or Wine Spectator in their advertising of champagne. Accordingly the aim of this paper is to analyse the price formation of champagne prices on the Scandinavian markets, i.e. to what extent can prices be explained by the ratings of Robert Parker or Wine Spectator; or does a hedonic price function perform best? In order to address this question champagne prices at retail level in the Scandinavian countries have been collected along with a whole range of 'quality attributes' for these wines. Overall, the data set includes approximately 350 observations representing the main champagne producers and covering all 3 countries reasonably well. The main data sources are *Vinmonopolet* (Norway) and *Systembolaget* (Sweden). For Denmark the data are obtained from a whole range of wine merchants, supermarkets etc., as Denmark is a free market in contrast to the state regulations in Norway and Sweden. In order to estimate a hedonic price function a number of attributes like the grapes used, the vintage, indicators of sweetness, freshness etc. are included as far as such data are available. Furthermore, the quality assessments of professional wine experts are included from Robert Parker, Wine Spectator and the French '1855 Notation' (1855.com), although, as expected, not all champagnes sold in Scandinavia are rated by the wine experts, who obviously only deal with the high-end segment.

The analysis suggests that the prices of champagnes are related to e.g. the ratings from wine experts like Parker or Wine Spectator. The result from this part of the analysis shows that approximately 60 per cent of the variation of the champagne prices can be explained by the ratings from the before-mentioned wine tasters and therefore, assuming the professional tasters can assess quality, the price structure of champagnes in Scandinavia seems to be roughly correct. Additionally, the absolute price level also seems to correspond fairly well to the price level of champagnes in France as the data from the '1855 Notation' also includes the French retail prices – Parker and Wine Spectator also indicate retail prices and again, the Scandinavian prices do not seem to deviate much from the listed prices in these sources. Evidence



on whether Wine Spectator or Robert Parker predicts prices best is mixed. Alternatively a hedonic price function for champagne is estimated with a set of quality attributes – vintage, the degree of full-bodiedness, grape, content of sugar and acid and label quality (Grande Marque) – explaining the actual retail prices. This works very well and in nearly all cases the different explanatory variables are found to be statistically significant with the correct or expected signs. This kind of econometric model is able to catch the price structure of champagnes with a 60 per cent degree of explanatory power – in fact like the wine experts. Therefore, from the objective attributes (vintage, grape, sweetness, etc.) of the champagnes it is possible to predict the prices of these just as well as done by the different rating systems published by the professional wine tasters.