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

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Abstract:
This paper analyse the retail prices of champagnes sold in the Scandinavian countries. Price data for the champagnes contain nearly 380 observations including a range of quality attributes of each champagne. The empirical part of the analysis reveals that the retail prices of champagne can be fairly well explained by a hedonic price function with a degree of explanation corresponding to approximately 60 percent. However the ratings by the wine experts, in this case Robert Parker, Wine Spectator and to a lesser extent the French ‘1855 Notation’, do just as well concerning explaining the retail prices of champagnes. Especially the rating of champagnes by Robert Parker seems to be the rather influential concerning the sales prices.

Earlier empirical evidence

• The hedonic price function approach is commonly used on still wines (a list most likely not complete):
  
• Consumer's valuation of champagne - blind test experiment:
  · Combris et al. (2006); consumers are unable to classify low price, medium price and Grand Marques champagnes in blind test experiments.
  · Revealing sensory and commercial information to the participants, brands and reputation have a decisive impact on the reservation prices, though consumers' preferences are still heterogeneous, see also Lange et al. (2002) for similar results.

Empirical Price Model (1):

$$\log(price) = \alpha + \beta \cdot \text{Points} + \gamma \cdot DK + \delta \cdot SW + \epsilon$$

Points: Ratings by
  · Robert Parker (80-100)
  · Wine Spectator (80-100)
  · 1855.com (1-5)

DK: Dummy for Denmark
SW: Dummy for Sweden

Table 3. Regression analyses of the champagne prices (log values).

<table>
<thead>
<tr>
<th>Variable / Testing expert</th>
<th>Wine Spectator</th>
<th>Robert Parker</th>
<th>1855.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-7.7525</td>
<td>-14.597</td>
<td>3.0693</td>
</tr>
<tr>
<td>Points</td>
<td>0.1299*</td>
<td>0.2049*</td>
<td>0.1806*</td>
</tr>
<tr>
<td>Dummy for Sweden</td>
<td>-0.0431</td>
<td>-0.2318</td>
<td>-0.1687**</td>
</tr>
<tr>
<td>Dummy for Denmark</td>
<td>0.0007</td>
<td>0.0002</td>
<td>0.0376</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.44</td>
<td>0.57</td>
<td>0.13</td>
</tr>
<tr>
<td>Number of observations</td>
<td>179</td>
<td>55</td>
<td>128</td>
</tr>
</tbody>
</table>

Notes: Underneath the table are standard errors of the estimated parameters. "*" indicates significance at the 5% level; "**" at the 1% level. The sample has been limited to champagnes ranging between 80 and 100 points in order to increase comparability with Robert Parker and 1855.com, i.e. none of the champagnes in e.g. Parkers rating obtain less than 80 points. Consequently, four champagnes that obtained only 73 points are excluded. If these observations were included, the R² in the Wine Spectator equation would be reduced by 10 percentage points!
Empirical model (2): Explaining champagne prices by objective quality attributes.

\[
\log(\text{price}) = \alpha + \phi \cdot (\text{Grandes Marques}) + \beta \cdot (\text{Vintage Champagne}) + \gamma \cdot (\text{Acidity}) + \delta \cdot (\text{Full bodied}) + \epsilon \cdot (\text{blanc de blanc}) + \zeta \cdot (\text{blanc de noirs}) + \epsilon \cdot (\text{DK}) + \xi \cdot (\text{SW}) + z
\]

- Grandes Marques: Dummy for Twenty-four top champagne houses, selected by the organization ‘Syndicat des Grandes Marques’.
- Vintage Champagne: Dummy for Vintage Champagne.
- Old vintage: Dummy for Champagne older than 10 years.
- Extra Brut: Dummy for Dosage less than 6 g/l.
- High acidity: Dummy for acidity higher than 7 g/l.
- Full bodied: The Champagne is announced to be full bodied.
- Blanc de Blanc: Dummy for …
- Blanc de Noirs: Dummy for …


Step 1.

\[
\log(\text{Point}) = \alpha + \phi \cdot (\text{Grandes Marques}) + \beta \cdot (\text{integrity Champagne}) + \gamma \cdot (\text{blanc de blanc}) + \delta \cdot (\text{blanc de noirs})
\]

Step 2.

\[
\log(\text{price}) = \alpha + \beta \cdot (\text{Point}) + \gamma \cdot (\text{DK}) + \delta \cdot (\text{SW}) + \epsilon \cdot (\text{z})
\]

Where z is a vector of explanatory factors not used in step 1.

Summing up:

- Scandinavian champagne prices are closely related to expert ratings and objective quality attributes.
  - The ratings made by Robert Parker explain nearly 60% of the variation in champagne prices.
  - Do retailers look into, e.g., Robert Parker’s Wine Guide when they set the prices?
  - Using a hedonic price function approach also catch nearly 60% of the variation in champagne prices.
  - Combining the approaches may explain up to 70%!
- The advise to ordinary consumers seeking a bottle of champagne to a fair price without using to much effort on information: Watch the points from the experts (assuming the experts are right about the quality).