



## What Determines the Price of Port Wine?

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### Abstract

Port Wine is one of the most famous products from Portugal. The Port wine industry represents one of the few Portuguese global products. Very little economic research has been completed on the industry, in particular, no systematic study has been undertaken to identify and determine market value for the individual attributes, which make up the product called "Port Wine". Port wine is characterized by its large heterogeneity. When consumers want to buy a bottle of Port wine they face several "Port Wines" with different prices - Vintage, LBV, Tawny, Ruby, special categories, etc. A Port wine company produces bottles with a wide range of price, age and other characteristics. This heterogeneity makes Port wine a suitable product for a hedonic price analysis. This paper addresses the question: what determines the price of Port Wine? A hedonic model is estimated to explain the variation in price between different Port wine characteristics using several objective and subjective variables. The model is estimated using selling price data from the Port wine biggest companies and all data used in this paper were collected, with companies' permission, from the industry regulator database. This is, to our best knowledge, the biggest wine hedonic study, with more than 14 000 observations from nine different countries. As independent variables, the following wine attributes have been considered: age, type of Port, type of brand, company reputation and cellaring potential. The hedonic price function has been estimated in the form of OLS model. Our results suggest that both objectives (age, type of Port, type of brand) and subjective (company reputation, cellaring potential) characteristics are market price determinants. The study also developed other hedonic price log-linear models related with port wine groups like blend and non-blend wines. These model's overall results were in line with the first model: the main price determinants, although not the same, are objective characteristics. Nevertheless, the individual explaining power of the objective characteristics is bigger than the subjective characteristics.