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Geography vs. brands in a global wine market

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Abstract

The international wine market is increasingly dominated by producer brands. On the other hand regional or national advertising campaigns are launched (e.g. Australia, Austria, Spain) in an attempt to promote product origin and to boost exports. Using a hedonic modeling approach, we assess the value of producer brands vs. geographical indications that signaling above average quality. We employ a hedonic model analyzing U.S. price data and quality indicators for 22 distinct wine growing regions within eleven countries. The main data source for the analysis is the "Wine Spectator" magazine. We define an indicator for high, average, and low quality producers (brands) within a region based on their relative peer performance, i.e. whether they consistently produce qualities that are one standard deviation above or below the regional average. Based on this indicator, estimated premiums (discounts) range up to +20% (-10%) for high and low quality producers (brands) within their regions. The estimated regional price differences range up to 50%. Adjustments for high and low quality producers (brands) mitigate the larger regional effects, but largely preserve the rankings between regions. However, several interesting results ensue. On average, prices for the top new world brands never exceed the prices obtained for an average Napa Valley brand which was chosen as the reference category in the estimation. In contrast, prices for the top brands from France and Italy will exceed the prices even for the top Napa Valley brands. Therefore, we must conclude that new world wine producers still have to catch up with the old world in terms of regional premiums. However, some individual new world brands are able to pick-up most of the price differential. The results can be used to assess the potential impact of regional marketing efforts vs. producer branding.