



# Portuguese wine ratings: An old product a new assessment

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## Abstract

Typically, wine is a good experience, its quality being unknown before consumption, with wine drinkers tending to be risk-averse. This being so, expert and consumer opinions may help to fill this information void. Following the classic example of the Bordeaux region increasing numbers of wine producers submit their wines to the *raters'* evaluation, aware of its importance in consumer purchases and in the definition of wine prices. Portugal, particularly in the last decade, has been following this tendency, with an increasing number of Portuguese wines appearing on the ratings list of Robert Parker (RP) and Wine Spectator (WS) gurus.

Using the ratings published in 2010, by RP, WS, João Paulo Martins (Portuguese) and cellartrack.com, this paper aims to assess the consistency between the ratings assigned by different experts and by consumers and, additionally, to determine if the score attained by a specific wine is influenced by colour attributes and/or wine region (geographic origin). A statistical analysis shows that, with minor differences, there is consistency between the different ratings. Furthermore, the results of the regression models indicate that red wines tend to have higher scores and, in geographical terms, Douro wines are in prime position.

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**Keywords:** Portuguese wines; Ratings; Consistency

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## 1. Introduction

During the last decade, the word *rating* has become increasingly familiar, whether in relation to sovereign debt, creditworthiness of firms and universities, or wines. In all these situations, it is assumed that *ratings* are a way of filling consumers' information failures, a question that belongs to the microeconomics topic of adverse selection market failures.

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Typically, wine is a good experience, where quality is not recognised before consumption, i.e., until one buys and opens a bottle its content and quality remain unknown. That is why wine consumers count on expert opinions expressed in wine ratings and critical reviews. Internationally, some of the best known experts are Robert Parker (RP) and his publication the Wine Advocate, first published in 1978, and Wine Spectator (WS),<sup>1</sup> whose first number came out in 1976. These *raters* have an enormous influence on both producers and consumers of wine. Both wine *raters* score the wines from 50 to 100 and a high score (for RP and WS, an outstanding score is from 90 upwards), in general, leads to a higher price and increased sales. On the other hand, a low score can lead to decreased sales and often to a lower price (Thompson and Mutkoski, 2011).

In Portugal there have also appeared several *raters* and opinion makers, over the last decade, albeit with less renown than the international ones. One of the most prominent experts is João Paulo Martins (JPM), with his annual publication *Guia dos Vinhos de Portugal*, which, in addition to the rating, gives a detailed description of the characteristics of each wine tasted. This *rater* grades the wines from 14 to 20.

As a complement, and in some ways, as a counter power to *raters'* influence in consumer decisions, social networks have emerged recently, including the web, in which consumers express their opinions and ascribe their scores, the information included in <http://www.cellartracks.com><sup>2</sup> being particularly important.

Table 1 presents the scores and rating descriptions for each of the rating sources referred to above.

The aim of this paper is to assess the consistency between ratings assigned by different experts and by consumers and, additionally, to determine if the score attained by a specific wine is influenced by colour attributes and wine region. To achieve this objective the paper is organised as follows: Section 2 includes a literature review; Section 3 presents an overview of the Portuguese wine sector and Section 4 data and results; finally, in Section 5, concluding observations are given.

## 2. Literature review

In the wine economics field, three major research topics have deserved special attention: finance, climate changes and expert opinion. The research has been extended to subjects related to market regulation, quality signalling and consumer search (Storchmann, 2011).

Typically, wine is a good experience and wine drinkers tend to be risk-averse (Gocekus and Nottebaum, 2011). Hence, reputation is one of the most important factors in overcoming the informational asymmetry problem – adverse selection – associated with this type of products (San Martin et al., 2008).

Reputation can be influenced in three different ways: (a) producer and/or brand recognition associated with “objective” wine characteristics, such as colour, alcohol content, grape variety, and vintage year; (b) expert opinion, based on the wine's sensory characteristics; and (c) the umbrella brand/collective reputation, such as region of origin.

The influence of reputation on price has been analysed mainly using the so-called hedonic price functions – following Lancaster's theory on consumer behaviour – where prices are regressed on a set of characteristics in order to determine which of these have a significant effect on prices. The price equation includes the objective characteristics of wine, where reputation is conveyed through the producer and/or brand name to consumers, and sensory characteristics, as judged by expert rankings and opinions (San Martin et al., 2008).

Different papers show the importance of the producer or individual brand on wine prices, namely, Oczkowski (1994) for Australian premium table wines; Combris et al. (1997, 2000) for Bordeaux and Burgundy wines; Schamel and Anderson (2003) for Australian and New-Zealand wines; Luppe and Angelo (2005) for Brazilian, Argentinean and Chilean wines; Haeger and Storchmann (2006) for American pinot noir; Lecocq and Visser (2006) for Bordeaux and Burgundy wines; Hadj Ali and Nauges (2007) for Bordeaux wines; San Martin et al (2008) for Argentinean wines in the US market; and Viana and Rodrigues (2007) for Porto wine. In the case of Portugal, Viana and Rodrigues, drawing on a sample of 14,000 observations from the largest Port wine firms, found that the brand/ type of Port and producer's reputation are significant determinants of wine prices.

The influence of wine expert *raters*, such as WA and WS, is, generically, seen to be of great importance. Several papers have addressed this influence via the estimation of the so-called hedonic price functions, comparing the effect on prices of official classifications with the impact of *raters'* classification, and analysing the marginal effect of *rater* marks. Jones and Storchmann (2001), using data from wine auction prices for 21 prestigious Bordeaux *crus classés chateaux* wines, conclude that experts' influence is significant, for each additional Parker's point score the price increased, on average, 7%. Schamel and Anderson (2003) show that, for Australian and New-Zealand wines, price premium associated with both James Halliday's and Winestate magazine's sensory quality ratings, and with Halliday's winery ratings and classic wine designations, are highly significant. Dubois and Nauges (2007), using a panel data set of 108 châteaux selling wines on the Bordeaux *en primeur* market, confirm that experts' grades affect the *en primeur* price more than the unobserved wine quality. Hadj Ali et al. (2010) estimate that the marginal effect of Parker's scores on *en primeur* Bordeaux wines, is, on average, 2.80 euro per bottle of wine.

Gocekus and Nottebaum (2011) attempt to shed light on the question of whose rating a regular buyer should pay attention to, comparing the taste of regular consumers with that of experts. From a sample of 120 vintage 2005 Bordeaux wines listed in cellartracker.com, they conclude that both average and median community scores are lower than expert scores, the

<sup>1</sup>As with financial agencies, in the wine industry the best known gurus are also from the USA.

<sup>2</sup>This website follows a rating criterion identical to that of RP and WS. See Table 1.

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