

## Good Will or Good Wine? Napa versus Sonoma County Wines

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### **Abstract**

Perceptions matter. In a market characterized by incomplete information, consumers will seek signals of a products quality. These signals include: Price, brand, region, ratings, and prior experience. How consumers interpret these signals determines whether and how much they are willing to pay for the respective product. Consider for example price. While in blind tastings, consumers did not view more expensive wines to taste better<sup>1</sup>, when told a wine is more expensive, consumers consistently rated wines perceived as more expensive as better than wines perceived as less expensive.<sup>2</sup> Moreover, even in the face of more complete information, for example actual tastings, consumers used external signals such as price and country of origin, to evaluate wines more than their own actual evaluations from tastings.<sup>3</sup> Clearly, perceptions play an integral role in both the decision to purchase and hence their willingness to pay for products.

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<sup>1</sup> Goldstein, Almenberg, Dreber, Emerson, Herschkowitsch and Katz (2008).

<sup>2</sup> Plassmann, O'Doherty, Shiv, Rangel (2008).

<sup>3</sup> Veale and Quester (2008).

Along these lines, this paper seeks to answer a simple question, “Are consumers willing to pay a premium for wines produced in Napa County over similar quality wines from Sonoma County?” To answer this, we construct a unique data set used to estimate a hedonic price function controlling for varietal, quality, promotional activity, brand and region. We concentrate on wines from Napa and Sonoma Counties only and examine purchases of glass 750 ML bottles of Cabernet Sauvignon and Zinfandel, the flagship varietals of Napa and Sonoma respectively. To control for quality we use ratings taken from *Wine Spectator* magazine. The *Wine Spectator* ratings are then integrated with US retail scan data of the same wines and used to estimate the ratings premium on the sample of wines as well as the price premium associated with wines of the same rating and varietal from Napa over equivalent wines from Sonoma County. The combined panel data set is then used to (a) estimate the marginal effect of ratings on the price of wine (b) estimate the regional premium of wines from Napa over equivalent wines from Sonoma County and (c) estimate the affect of brand on ratings, region and price. Using a fixed effects model to control for any unobserved heterogeneity, we find a positive and statistically significant affect of ratings on price. With respect to the Napa premium, we consistently find a positive and statistically significant premium for Napa Cabernet Sauvignon over Sonoma County Cabernet Sauvignon, although this premium diminishes with ratings score once we include brand and non-linear effects. For Zinfandels, the results are mixed. While we find a small but statistically insignificant premium for Napa Zinfandels over Sonoma Zinfandels in our simplest model, once brand and non-linear effects are included in the model we find a find premium for Sonoma Zinfandels ranked with score of approximately 85 and below and find a premium for Napa Zinfandels ranked above 85.

The results of this study have implications to how wineries market their wines. That is, should a winery promote its brand, region or the score it received from *Wine Spectator*? For Napa Cabernet Sauvignons with relatively low scores, consumers respond to regional and brand identification more than ratings score. However, as score rises, region becomes less important while brand and score become more important. For Napa Zinfandel, consumers respond to brand and ratings more than region. For wines from Sonoma, both Cabernet Sauvignon and Zinfandel consumers appear more sensitive to brand recognition than either region or ratings.

**Key words:** Pooled Cross Section Time Series Analysis; Hedonic Prices, Brand Effects, Region Effects, Ratings Effect and Wine.