

What's in a Name? A Hedonic Pricing Model for Okanagan Valley Wines

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Summary

We estimate a hedonic pricing function for wines produced in the Okanagan Valley of British Columbia, Canada. We investigate implicit prices for objective wine attributes, as well as success at a local wine festival. In differentiating wine prices and wine festival success, we focus on the importance of naming, specifically, trendy and geographically indicative names, and business association membership. Variables with a statistically significant impact on wine price include: several objective attributes, vintage characteristics, as well as business association membership of the winery. While naming is found to be unimportant with respect to differentiating wine prices, it is important for winning awards, as is business association membership, location, quality certification, and grape variety.

Data pertaining to price and a subset of wine characteristics are taken from the British Columbia Liquor Distribution Board's (BCLDB) price list of October 2009. A reputation variable was built using medals awarded during the annual tasting competition that takes place at the Okanagan Wine Festival. Data for the years 2006 to 2009 was used, with winnings weighted according to the size of the prize (best in class, gold, silver, bronze), and then aggregated for each winery over the four-year period. The weights were determined by the approximate relative frequencies of the medals, and their estimated contribution to reputation. Wines with trendy names and/or names that departed from more traditional appellation, and wines with names that referenced geographical features of the Okanagan were identified using two dummy variables. Further variables included separation assignment to one of ten distinct wine producing regions in the valley. Membership in the Association of BC Wine growers (ABCW), the BC wine institute (BCWI), and the Okanagan Wine Festivals Society (OWFS), as well as whether or not the wine has a VQA designation, were also included.

We find that membership in voluntary, privately initiated business associations generate a price premium, in contrast to membership in a government-initiated association, which was formerly industry-wide. The ABCW, whose members use only BC grown grapes, and another private business association, the OWFS, are drawing results for their membership. Specifically, membership in the ABCW generates a price premium of 4.5% and membership in the OWFS generates a price premium of 9.7% relative to non-affiliated wines. The BCWI, a formerly industry wide compulsory organization, is failing to do the same for its members, who receive a 3.6% discount over

non-affiliated wines. This may reflect a differing objective, moving volume rather than promoting quality, or inherent inefficiencies in mandated industry organizations.

Somewhat surprisingly, we find that a departure from traditional appellation provides no significant premium over traditional appellation, and reference to the Okanagan does not, on average, influence the price of a bottle of wine. Our findings suggest that winning awards at the Okanagan Wine Festival certainly do not create premia for a winery on average. However, we do find that objective *winery* attributes are highly significant in explaining the (weighted) number of medals won over the past four years.

The literature suggests that older vintages will fetch a premium because certain varieties and blends improve with age (Ashenfelter, 1995). While this increased willingness to pay for older wines might be pushing the sign of this attribute positively, we find that that age explains less of the variation in wine prices than variation in the quality of a particular vintage. Except for Semillon and Syrah, most statistically significant varieties receive discounts relative to wines with a blend of grapes. This suggests that blending, a costly practice is able to command a higher price.

Of particular interest is the fact that a wine labeled Shiraz receives a 24% discount compared to an unspecified grape, while a Syrah receives a 14% premium. This is somewhat surprising, as this is purely a naming choice with no difference in the grape. [An Okanagan Syrah](#) will, on average, increase a consumer's willingness to pay for that bottle of wine by 38% over a comparable Shiraz.

Our regression on reputation scores provides us with information about production factors of winning wineries. The importance of business association membership indicates that winning wineries tend to be affiliated with the BCWI (also producing VQA wine) and the Okanagan Wine Festival Society (OWFS), but not the ABCW. Winning wineries tend also to have particular locations, and use certain grape varieties. Interestingly, while a Shiraz receives a steep discount at the checkout counter, winning wineries tend to produce Shiraz. Winning wineries also tend to have wine names associated with the Okanagan Valley, which do not depart from traditional appellation. These results emphasize that whatever process is used to judge wine and award recognition has little to do with the factors that influence consumer choice.

As a relatively new wine-producing region, wineries in the Okanagan are both perfecting their processes and establishing their reputation. Our results suggest that some experiments are proving successful, while others are having little impact or may have been outright failures. Of particular interest, wine competitions may have far more to do with raising the profile of the region than actually picking the best wine, as awards have little to do with consumer choice. Further, associations to which wineries choose to belong are more successful at generating a price premium for members than organizations whose origins includes a government mandate, and compulsory membership. As an emerging wine production region and a wine tourism destination, the Okanagan wine industry is likely to continue to evolve and change as it searches for its unique niche in the market.