The market power of foreign branding: Evidence from the on-line market of Italian-sounding wines

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Objectives

The country of origin (or, more generically, place of origin, Chamorro et al., 2015) of a good - whether expressed with a clear “made in” label or communicated to consumers in some other way - is able to influence consumers' perception of that good and their purchase intentions (Bilkey and Nes, 1982; Verlegh and Steenkamp, 1999; Usunier, 2006; Bloemer et al., 2009). When the country of origin is the bearer of positive values (e.g., elegance, solidity or reliability), this perception translates into greater consumers’ willingness to buy and to pay to the advantage of goods produced in that country, due to the fact that consumers recognize those goods as somehow superior in value to others (Schamel, 2006; Koschate-Fischer et al., 2012; Anselmsson et al., 2014). Once a positive association between country and product is internationally acknowledged, it can affect export of such product (Lampert and Jaffe, 1996).

The country-of-origin (henceforth: COO) effect has been studied in relation to a variety of countries and goods. Many studies come from the food sector, in which the place of production play an important role (Ehmke et al., 2008; Unahanandh and Assarut, 2013). In the field of wine, research has shown that COO is very relevant for consumers (Felzensztein et al., 2004; Veale and Quester, 2008; D’Alessandro and Pecotich, 2013; Hu and Baldin, 2018), and that it can be more important than price in signalling quality to them, to the relatively inexperienced ones in particular (Balestrini and Gamble, 2006).

The literature has documented the existence of a strategic use of the COO effect by producers (Aichner et al., 2017). This is the case when a good refers to a set of symbols, images, words, values typical of a country that is specialized in the production of such good, and has a good reputation attached to it, without having been produced in that country (see also foreign branding) (Leclerc et al., 1994; Aichner 2014; Melewar and Skinner, 2020). Language plays an important role in the construction of a foreign branding strategy (or a foreign sounding effect) (Salciuviene et al., 2010). Language is, in fact, an important vehicle for communicating with consumers and conveying to them values, images and feelings which can influence their purchasing behaviour (Leclerc et al., 1994). A product with an Italian name, which is marketed using words of the Italian language is a product that sounds

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as if it were Italian. This reference is not necessarily illegal or seriously misleading to consumers. Even if there are fake made-in-Italy products, which fall into the field of counterfeiting (e.g. cheeses or tomato sauces with a fake Made in Italy label) (Carreño and Vergano, 2016), there are also many products that are marketed using symbols of the Italian culture (e.g.: images of Italian cities and monuments) or Italian words, but which do not claim to be Italian and therefore do not constitute a counterfeit (Luigi et al., 2008). The example of Italian food sounding is not accidental. Indeed, the phenomenon would be so relevant that, in 2014, 2/3 of the food trade was originated by Italian sounding goods (Aichner et al., 2017).

The literature on foreign branding generally agrees that this strategy is able to positively influence consumers' perceptions and purchase intentions, especially in the case of hedonic goods (Bilkey and Nes, 1982; Leclerc et al., 1994). Few contributions have also found that, following the higher evaluation of the foreign-sounding good with respect to the non-foreign sounding one, consumers' willingness to pay increases (Aichner et al., 2017). However, the literature has not shown whether and to what extent this strategy pays off from a price premium point of view. In fact, consumer willingness to pay is only part of the story, the other part being related to whether and to what extent companies will actually be able to charge higher prices for foreign branded goods.

Focusing on the case of wine - a hedonic good in which the label is an important communication vehicle – we aim to assess whether foreign branding, in the form of an Italian-sounding label, provides a price premium to the wine seller.

Methodology

To assess whether foreign branding, in the form of an Italian-sounding label, provides a price premium to the wine seller, we develop an empirical strategy, which we borrow from the literature on counterfactual policy evaluation. The basic idea is very simple. There are many variables, other than the Italian-sounding label, that may influence the price of wine. Contrary to regression-based hedonic price approaches, we do not try to directly model their influence on prices, but adjust for their influence using a regression-free matching technique. Such technique is extremely flexible, in that it relies neither on arbitrary functional form, nor on other parametric assumptions of regressions. It builds pairs of Italian sounding (but not Italian) and non-Italian-sounding (and not Italian) wines that are very similar in terms of all characteristics, but for the Italian sounding label. Then we contrast the average price per bottle in the Italian sounding group and in the group of matched non-Italian sounding wines. A difference in favour of the price of Italian sounding bottles suggests that the foreign branding strategy allows the companies adopting it to set higher prices than those they would have set in absence of this strategy. The price we

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consider is the price at which a bottle is sold in different online markets (US: www.wine.com, UK: www.virginwines.co.uk, Australia: www.winecellars.co.au, Cina: www.suning.cn).

Results & policy implications

We estimate the effect for various categories of markets (different quality ranges and different geographic locations). According to our analysis, Italian-sounding in general does not provide a price premium to producers. On the contrary, the use of language and the reference to the symbols of made in Italy without this reference corresponding to reality provides a price penalty, of not small amount, equal to 12 dollars, for bottles that cost on average 64 euros (see Table 1). However, as we see in the first row of Table 2, this price penalty does not affect all bottles, but only the medium ($50 to $150) and high (price above $150) price ranges. in fact, in the case of relatively low-priced bottles (up to $49.99), Italian sounding has value, albeit little. Producers who adopt this strategy have a price premium of 1 dollar per bottle. The central point is that made in Italy in the sector we are observing has no pricing power in absolute terms. Given the same non-price characteristics (i.e. type of grape variety, quality range according to critics, popularity according to consumers, etc.), and even at the same price range, Italian wines suffers from competition from US (Napa Valley) and French wines, compared to which they have less pricing power. One might infer that the power of the brand is stronger than that of the place of origin - a point never clearly stated in the literature. However, while this seems to be possible in the case of Napa Valley, which is characterised by the presence of strong wineries, in the case of France the explanation seems to be more complex. Especially in small business contexts such as that which characterises Italy and to some extent France, the power of public investment in territorial brands seems to be an important key to product competitiveness.

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