Winery reputation – Do German guides provide orientation on wineries and is engagement and investment attractive for wineries?

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◦ **Purpose:** For German wineries quality reputation seems to be the strategic key success factor. In the world of wine where consumers’ capabilities to assess the quality are limited reputation serves as surrogate information. Furthermore, wineries predominantly base their strategic positioning on their quality and winery reputation. Reputation building therefore is in the interest of the wineries with the need for adequate attention, strategy, and investments. Wine guides claim to play an important role in building winery reputation in Germany. This article exploits the judgments of three relevant wine guides. Gained insights increase transparency to their quality assessments. Examining firm reputation as well as collective perspectives the findings contribute to the theory of reputation. Supportive information for managerial decisions in regards to investments in quality and in reputation is delivered.

◦ **Design:** For an explorative study we created a database with the expert judgments of three dominant wine guides in Germany for three consecutive years, wine prices and further descriptive data. The database consists of more than 800 wineries and contains 6,229 quality ratings and 4,713 prices. All German wine growing regions, about 10% of the German winery population with direct consumer sales and more than 20% of the total wine production of Germany are represented.

◦ **Findings:** We find evidence for relevance of firm and collective reputation in the wine business. Individual winery reputation profits of expert judgments. To create awareness and resulting recommendations entry barriers have to be overcome. Reputation needs to be created and preserved, therefore investments are to be considered. The risks of highly volatile quality assessments once being judged and accepted as quality winery seem rather low. To be recognized in the elected group of outstanding wineries for Germany is quite a challenge. Membership as distinguished provider (VDP) is a relevant success factor. This observation further supports the notion of collective reputation effects, besides regional collective aspects. Regional reputation impacts performance but is not a result of size or cost structure of the regions. This reputation dimension is a long-term phenomenon. Actual pricing seems to reflect regional reputation where few regions over- or underprice. The growth of graded wineries in the guide population might decrease the value of honored judgments and hence their value in reputation building.

◦ **Practical implications:** There is an investment risk to be considered and expectations in regards to return on reputation via expert judgments by guides need to be managed. Knowing the judgments mechanisms as well as the different recognition behaviors allow for individual strategies in regards to wineries’ reputation building via guides. Wineries’ approaches should fit their strategic orientation with longstanding adequate planning and measures.

Key words: quality judgments, winery performance, ranking, reputation.
1. INTRODUCTION


Quality and reputation are primary strategic determinants for German wineries. 85% are pursuing strategies where quality builds the cornerstone of the strategic positioning and offering, only 15% strive for cost leadership or niches (Dressler 2013b). Hence, reliable reputation to distinguish from the competitors is in the strategic interest of winery. Expert ratings are a commonly regarded as objective source for reputation of wines and wineries. Indeed, wineries increasingly use them to communicate their reputation, although the value of those ratings for consumers is discussed controversially (Goldstein, et al. 2008, Cao and Stokes 2010, Cicchetti 2010).

We gathered data of three different wine guides to explore their reputational value for German wineries. Our interest is not in the adequacy of the underlying wine ratings but in the impact of the judgments on the wineries in the context of winery reputation. For winery managers, reputation building is an investment. Additional transparency of the reputational effects of those investments should enhance managerial decision making.

2. REPUTATION THEORY AND GUIDING RESEARCH APPROACH

Reputation can reduce uncertainty; assessment costs and impacts the consumer’s quality perception (Cavusgil 2007, Castriota and Delmastro 2008, Schrader 2008). For the German wine world, characterized by more than 10.000 brands, wine guides claim to provide orientation and to support reputation building for the wineries. Indeed, expert ratings are found to impact reputation (Castriota et al. 2012, Gokcekus and Nottebaum 2011; Hay 2010, Visser and Langen 2006, Kaiser 2008, Cardebat and Figuet 2013, Frick and Simmons 2013). In general, positive expert reviews should result in higher reputation and prices (Ashenfelter and Jones 2012, Hadj Ali et al. 2008, Dubois and Nauges 2010, Riesz 1978, Morss 2010). Since the German wineries center their strategic positioning predominantly on wine quality, their quality reputation is of paramount managerial importance.

The concept of reputation distinguishes the two dimensions individual/firm and collective reputation (Castriota, et al. 2008). This dual reputation (Rickard, et al. 2012) is apparently highly relevant in the wine business and hence subject of our analysis of German wine producers selling to end consumers. A prerequisite to apply the theory of firm reputation (Winfree, et al. 2005) is that the producers are able to differentiate, what is the case for our research subjects, since they sell premium wine and therefore strategic positioning matters (Dressler 2013b, a). Indeed, many entrepreneurial activities are pursued with the ambition to
position the producer in the market, such as generic strategies, offering, brand, stories, terroir, varietals, yeast, usage of barrels, innovation or other production features. Additionally, collective reputation (Tirole 1996, Costanigro, et al. 2010) has proven to be important for agricultural products and especially for wine (Winfree, et al. 2005, Castriota and Delmastro 2009), although apparently less researched. The concept of origin of wine and appellations reflects that collective activities impact the reputation.

We explore a database created on the basis of German wine guides in the context of firm and collective reputation. Practitioners are puzzled whether activities to get recommended in the wine guides pay off. Our research explores the managerial challenge where to allocate resources to foster reputation. To address resource allocation in the context of firm reputation we on the one hand analyze the homogeneity of guide judgments. For the dimension of collective reputation we explore regional reputation effects of the guides. Hence, our analyses aim to contribute to the theory of reputation and add more in-depth understanding of the success factors of winery management (Shapiro 1983, Klein and Leffler 1981, Melnik and Alm 2005).

3. WINE EXPERT JUDGMENTS IN GERMANY

Expert judgments are longstanding and historic practice in the German wine business. Only via official expert judgments wineries are allowed to label their products as quality wines. Furthermore, the system constitutes the basis for official honors and awards that are commonly used in product communication. Quality wines need to pass the official analytical and sensory test to be categorized within the quality pyramid. They can then be nominated to be awarded gold, silver, or bronze medals in their wine quality category (Rössel and Beckert 2012). Based upon the official wine recognitions the wineries might qualify additionally for honors - e.g. “Großer Staatsehrenpreis” (Rathke and Boch 2011, Koch 1972, Landwirtschaftskammer 2012). Besides the official judgments there exist numerous private quality assessments, awards and ratings from different organizations: Mundus Vini, Vinum – Deutscher Rotweinpreis, Selection – Premium Select Wine Challenge etc. (Mundus Vini 2014, Intervinum 2014, Konradin Selection 2014). Quality assessments of wine guides are furthermore used by consumers to inform about wineries and their wines. For Germany, three renowned wine guides publish individual rankings of German wineries annually on the basis of their quality testing processes.

The impact and importance of wine expert ratings surely increased since Robert Parker published his assessments in 1978. Parker points are assigned according to the American school system from 50 to 100 points (Parker 2014) whereby 96 to 100 points describe extraordinary wines (Storchmann, et al. 2012). The wine reports are published in the bimonthly journal “The Wine Advocate” as well as in different wine books. Robert Parker is commonly regarded as the most influential international wine expert and his classification system serves as role model worldwide (Hadj-Ali et al. 2008). Regarding wine guides in other countries, in 1985 the first French wine guide “Le guide Hachette des vins“ was released, followed 1988 by the Italian guide “Gambero Rosso“ and 1990 by the Spanish register “Guia Peñín“ (Gambero Rosso 2014, Guia Penin 2014, Hachette Livre SA 2014).

For Germany, the three wine guides and their judgments of the quality of German wines and wineries seem highly influential, publishing 30.000 to 74.000 printed booklets a year. (Gault Millau 2014, Kreativ Media 2014, Brandmedia 2014) They judge with different assessment processes and ranking systems (see figure 1). In 1994, the “Gault Millau” (GM) published a first edition of quality assessments of the German wine market for wines as well as the producing wineries. Meanwhile the wines are classified on the basis of the international 100-
point-system, wineries are ranked by assigning grapes as symbolic quality scores. Five grapes mark the top producers. In 2014, the editor Joel B. Payne and his team of regional wine tasters list 1,093 wineries and 11,424 wines, four times more than in the first edition (Gault Millau 2014).

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<tr>
<th>Wine guide</th>
<th>Feinschmecker</th>
<th>Gault Millau</th>
<th>Eichelmann</th>
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<td>Degustation process</td>
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Figure 1: Overview wine guides and rating systems

The German gourmet magazine “Feinschmecker” (FS) published their first ranking of German wine producers in 1996. The ranking information is provided either as a supplement to the subscription of the monthly “Feinschmecker” or as separate publication with a one month delay. Dieter Braatz and his team assign from one to five “F” as performance indicators. Today, the wine guide recommends about 900 German wineries (Jahreszeitenverlag 2013).

Since its first publication in 2000 the wine guide “Eichelmann” (EI) established as additional standard information on German wines and wineries. The author Gerhard Eichelmann informs about the assessment of wines as well as producers. Wines are judged by the 100-point-system meanwhile producers can earn up to five stars to rank as top wineries. In 2014, Eichelmann qualified more than 900 winegrowers and delivers information on about 10,000 wines (Verlag Mondo 2014).

4. DATA BASE, EXPLORATION, AND RESEARCH QUESTIONS

By exploiting the three renowned German wine guides we draw on three different sources. We added descriptive information from the internet or other data sources. In case of inconsistencies we contacted the wineries for clarification. As dependent variables we use the two proxy variables quality and price that have proven to be reliable to assess reputation (Costanigro, et al. 2010, Frick 2004, Rössel, et al. 2012, Schamel 2009, Schamel, and Anderson 2003). The listed wineries of the “Feinschmecker” wine guide for 2011 built the core of a database where the quality assessments are transpositioned into an ordinal scale. We then added descriptive information of the wineries, e.g. region, size, ownership, membership, the quality assessments of FS for the years 2009 and 2010 as well as the quality ratings of “Gault Millau” and “Eichelmann” for the years 2009 till 2011 for the identified wineries. Prices for wines of the rated wineries in the database stem from the guide “Gault Millau”. As a result, the database consists of 826 wineries, 6,229 quality ratings and 4,713 prices. All German wine growing region are well represented. The database covers about 10% of the German wine estates with direct sales to the consumer and the wineries jointly make up for more than 20% of the total wine production of Germany.
Providing information to the following research questions should increase the transparency for managerial decision making in regards to investing into reputation building via guides:

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<th>Managerial issue</th>
<th>Research questions (firm or collective reputation)</th>
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<td>Should winery managers consider to select or prefer a specific guide when investing into reputation building via guides?</td>
<td>How homogeneous are the judgments of the guides and what distributions characterize the guides? (firm)</td>
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<td>Is the challenge rather to enter the guides or to remain at an achieved recommendation level (invest vs. reinvest)?</td>
<td>How dynamic and volatile are the judgments? (firm)</td>
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<td>What are success factors to achieve higher levels of recommendations?</td>
<td>Does membership in a closed circle impact judgments? (firm/collective)</td>
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<td>Will my firm reputation depend solely on my wines / winery – (could I profit or perhaps have disadvantages of collective reputation)?</td>
<td>Is there a regional impact on the performance proxies observable? (collective)</td>
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5. ANALYSES RESULTS
Firstly, we compare the three guides by looking at their different judgment levels and the homogeneity across the guides. The “Feinschmecker” judges with an average of 1.6, “Gault Millau” with 1.8 and “Eichelmann” with 2.6. Meanwhile, “Eichelmann” classifies twenty-seven wineries of the database with the highest possible score, for “FS” thirteen winegrowers and for “GM” nine wineries achieve maximum scores. The mean quality ranking over the years proofs to be rather constant. FS decreases from 09 to 11 from 1.6 to 1.5 whereas GM mean value increases (1.8 to 1.9) and EI judgments result remains constant (2.6). Due to different populations of wineries each year, i.e. an increase in qualified wineries, changes in average quality levels might stem from added qualified wineries. Meanwhile 107 wineries are rated equally across the judges some outliers of assessments are identified: “FS” rates on one winery in 2011 with one point that “EI” assigns in the same year five points; “FS” qualifies a winegrower only with entry rank who obtains four out of five points by “EI”. Overall, 14 estates show a difference of three points, 49 of 2.5 points, 101 of two points, 165 of 1.5 points, 208 of one point and 180 of 0.5 points.

Consistency is important for reputation. For the three year period, 24 % of the wineries listed in “Feinschmecker”, 23 % of those by “Gault Millau” and 30% of “Eichelmann” receive different ratings over time (Outreville 2012). Regarding the distribution of up- and downgrades and therefore changes in grades, GM upgrades 70% of the wineries meanwhile downgrading 30%, FS 54% and 46% and EI 49% and 51% respectively. Nevertheless, the volatility is rather limited, especially in the premium area. More than 90% of the up- or downgrades for all guides are with a maximum of one quality level. For FS 90%, for EM 70%, and for GM 28% are .5 changes. The most extensive jumps in “GM” are one up- and two downgrades by two points. For “FS” two estates improve their performance by 1.5 points over time whereas in “EI” three winegrowers report an equal success. Two wineries with 1.5 jumps are equally rewarded by two guides. Out of the top-25 ranked estates fifteen receive constant ratings, eight winegrowers are slightly upgraded and two are downgraded over time. (See figure 2) Three estates consistently outperform for all observed years as well as for all guides. The estates domicile in three different wine regions. “FS” and “GM” qualify three
more estates consistently at highest level for the years of observations. Eight wineries are present in each guide’s top ranking but with different quality recognitions. Seven of the top 25 wineries belong to the wine region Mosel followed by four estates from the Pfalz region.

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Figure 2: Top wineries across guides

Spearman-Rho correlation of price and quality assessment proofs significant with a value of 0.54.

Regional origination, our antecedent variable for collective reputation, certainly matters in the wine industry (Veale and Quester 2008, D’Alessandro and Pecotich 2013; Sutanonpaiboon and Atkin 2012). Germany produces wine in thirteen regions that differ in various aspects such as production capacity, average yield, varietals, producer concentration, penetration by cooperatives, consumer preferences etc. Our quality proxy as mean judgments for all regions and all years nominates Ahr, Mosel and Rheingau to qualify as the top quality regions. Their average scores on the five-point scales are higher than 2.0. There is a wide gap to the laggard Saale-Unstrut at the bottom place scoring only 1.2 (See figure 3). Rheinhessen and Sachsen also score low in average quality.
Indeed, the variation of the regional rankings across the guides and the years is low. Kendall’s coefficient of concordance equals 0.82 with high significance. One might expect that quality judgments depend on region reputation that are impacted by size. The underlying hypothesis could be that larger regions are dominant and possess more marketing power to create higher awareness in consumer minds. A contrary hypothesis would be that smaller wine regions are determined as quality regions also due to scarcity. Our data does not support those hypotheses. There is no correlation of regional size and quality assessment (see fig. 4). Indeed, the calculated correlation is only 0.176.

Figure 4 shows that there is a spread of prices depending on regions. Rheingau, Mosel, and Ahr lead the price positioning. Mittelrhein and Saale-Unstrut are at the bottom end with a
wide price gap to the leading regions. The leading wine regions are asking double of what the lagging regions state as prices for their wines.

The price-quality matrix (see figure 6) illustrates that quality correlates with prices under a regional perspective. R^2 is 0.63. Costs of production (comparison on the basis of costs per hectare) are not the relevant driver for prices. Mittelrhein shows the highest costs of production in a regional cost comparison but realizes lowest price levels in the database, Rheinhessen with very low production costs ranks also low in pricing, meanwhile Nahe is characterized by low production cost but realizes higher prices. (Kranich and Oberhofer 2014)
Investigating the population of outstanding wineries Rheinhessen, Rheingau, Nahe and Mosel are all represented by estates that possess top ratings in every guide and year (equivalent of 5 points) with Baden and Pfalz at almost same level (4.8 points). For the regions Hessische Bergstraße, Saale-Unstrut and Sachsen the best wineries only reach scores of 2.2 to 2.6 points.

One success factor to build reputation and become recognized by the guides identified in past research was the membership of the estates in closed quality circles. (Frick 2004, Rössel, et al. 2012, Frick, et al. 2013). Indeed, a strong representation of wineries with membership to the restricted “Association of German Quality Wine Estates” (VDP) in the recommended population is striking. With 176 VDP-wineries our database contains 90 % of the VDP-winegrowers in Germany. Within the generated “top 10 ranking” 100% belong to VDP and for the top 25 90%, demonstrating the importance of the membership in the premium wine market. In regards to differences between VDP and Non-VDP-members the database delivers further insights. Wineries belonging to the association reach an average of quality 3.05 points overall, 2.76 points in “FS”, 2.95 points in “GM” and 3.50 points in “EI”. The population not belonging to that closed circle only achieves mean evaluations of 1.24 points overall, 1.22 points in “FS”, 1.45 points in “GM” and 2.24 points in “EI”. Looking at the price performance in the database VDP-members generate in average a price premium of 15.30 € compared to Non-VDP-members. They ask for double the prices of the non-member population. In an OLS regression analysis VDP membership proofs highly significant for quality as well as for price with standardized regression coefficients of .51 and .34 respectively and thereby offering highest explanatory value of all tested variables in the model.

6. RESULTS DISCUSSION
Despite different assessment models and procedures the three analyzed wine guides provide solid information on German wineries and deliver a rather homogeneous judgment of the wineries with business to consumer sales. Therefore, each guide is generally suited for firm-reputation building and reputation communication. Wineries apparently can pursue different strategies when using guides for reputation building. Meanwhile a higher average judgment might justify to prioritize such a guide to enter and then achieve a higher grading it bears the risk that in order to position within the guide’s recommendations and therefore to create an “above average quality recognition” one needs to outperform a larger number of competitors. Since Eichelmann shows highest average quality rewards this guide might represent the most efficient approach to gain quickly a higher level of recognition. Feinschmecker with its lowest volatility of the three guides could be appropriate when searching predominantly for consistency. Gault Millau seems more active in reassessing the wineries with upgrades exceeding downgrades, therefore providing the opportunity to quickly or consistently climb in the rankings. These observations might also be interpreted that GM could be most critical of the guides.

Since volatility is smaller than expected entry into and climbing within the hall of fame of recognized wineries seem to be more challenging than remaining at once earned judgments. This observation is supported comparing our data to historic distribution. Ten years ago, Feinschmecker awarded 300 wineries – about a third of today. More than 5% received the very top rating (Frick 2004). In todays’ population of the guide with more than three-times of population about the same number of wineries receive top quality recognition but represent less than 2% of the published wineries. Overcoming the entry barrier is the challenge and therefore represents a risk of investment. As population of the recommended wineries is expanded the barrier especially applies for the top end premium. The challenge seems rather to enter that first tier acknowledgment than keeping once earned honors for the wineries. Up- and downgrades might not be caused by changes in underlying quality of the winery but root in actual presence in the press or media. Hence, impacting the judgments of the guides is not
restricted on product quality (wine) management but is rather a result of holistic, strategic management of the winery.

Our data does not allow to judge on ROI of the underlying activities. A positive correlation of prices and quality recognition indicates value-creation but the extent is neither striking nor is it sufficiently reliable applying industry knowledge and especially pricing backgrounds. The analyzed population needs to be compared to the non-recognized population. As the average calculated price level in the database with more than 18 Euros per bottle is more than triple the communicated average price in B2C wine business in Germany (DWI 2013) one might quickly state that the firm reputation via guide recognition pays off. But firstly, the prices are not directly comparable (e.g. price list versus realized prices), secondly the costs of recognition building are not reflected and thirdly the causality of “wine guide recognition” and “pricing” is not transparent. Still, for the time being getting recognized by the wine guides seems to require a rather small investments (contacting, free-bottles for tasting, networking …). Therefore a reasonable vehicle when pursuing strategic positioning on quality and reputation.

The data supports the notion of relevance of collective reputation. Region impacts quality assessments. It does not seem to be a result of size nor costs of production but rather historically affected perception (Trick 2009, DWI 2013). Since our data is limited to a three year period we extended the time horizon by integrating published study results. Comparing our observations with a study realized ten years ago (Frick 2004) on the basis of 1996 to 99 observations supports the notion of long-term regional quality perceptions. Pearson correlation for the quality assessments of the two datasets results in 0.78 and applying Spearman correlation turns out at 0.74. Looking at the quality/price matrix (figure 6) most regions seem to price according to the perceived quality of the region. Apparently, Mittelrhein is not exploiting their price potential considering their quality or reputation level. Mosel, Rheingau, and Hessische Bergstraße seem to slightly overprice meanwhile Ahr and Nahe might still be able to grow in quality reputation without jeopardizing the price-value levels. Overall, quality and price judgments support that regions impact reputation and that such origin of reputation matters and lasts. For individual estates located in lower valued regions building reputation is more of a challenge than estates located in the historic wine quality regions. (Kotha, et al. 2001) The top ranked quality regions profit of a longstanding history of higher reputation. But as several top performing estates stem from average or lower valued regions individual performance and supporting strategies allow to overcome regional and therefore collective boundaries, requiring additional efforts and investments for firm reputation.

Our observations in regards to the success factor to be member in a closed circle (VDP) contributes further to the theory in regards to collective reputation. The identified higher explanatory value of VDP ownership compared to regional factors might reflect that free-ridership can hamper collective reputation. Why investing if one earns equal profit without it? Regional collective reputation can suffer since wineries might profit of free-ridership without according investment. Individual wineries profit in case of a regional efforts to increase quality or gain in regional attractiveness. In case of closed quality circles with smaller membership and more transparency of individual behavior free-ridership is massively reduced. (Visser and Langen 2006, Castriota and Delmastro 2008, Kaiser 2008, Cardebat and Figuet 2013, Frick and Simmons 2013) As a result, we identify stronger impact of VDP membership, especially for prices than of the regional variables. But profiting of such reputational effects requires substantial investments and activities. The access to VDP is highly restricted and members are checked for their constant quality delivery according to the membership rules.
Limitations of our study are manifolds. The population of reputed wineries is not exhaustive since some wineries with high reputation avoid being qualified and later published by wine guides. Furthermore, the communicated prices represent different wines and categories and are just stated sales prices. They serve rather as approximation for pricing levels and performance. Besides the quantitatively expressed rankings the guides allow additional reputation building and profiling that is not fully reflected by our focus on communicated rankings. They provide space for individual positioning (pictures, storyline, vintner of the year, vintner for certain wines …) and wineries use the publications for communication. The wine consumer population relying on the guides does not represent the average wine consumer. We will extend the database to apply more multivariate analyses as well as an extended time period. As a result, the complexity of success factors will be better reflected in quantitative modeling and additional antecedents such as membership or ownership.

7. CONCLUSION
Wine consumers rely on expert ratings and supplier’s reputation. In Germany, three wine guides “Feinschmecker”, “Gault Millau” and “Eichelmann” claim relevance in reputation building and communication. Analyzing the guides on the performance indicators quality and price contributes to the theory of reputation and delivers managerial advice for practitioners. The underlying data supports that regional reputation as well as firm reputation matter despite indications for wine and winery judges’ bias, the extensive and increasing population of wineries published by the guides, and the coexistence of additional private and official judgments might decrease the value of individual awards or quality ranks. Wineries need to be aware of apparent entry barriers to the top level of the judgments. Restricted dynamics in the top 25 list and little dynamism in the overall judgments decrease the risk of follow-up investments after successful entry. A strategic approach with adequate communication seems of paramount importance. The analysis confirms selective success factors but also that more reputation effects require higher investments: VDP-membership impacts the probability for top positioning and price premium. Our findings thereby contribute additionally to the notion of collective reputation and provide evidence in the context of free-ridership since the closed membership and smaller membership circle proofs higher impact on the performance variables. We are expanding the analyzed population, years observed, and price information. That will allow to analyze for additional antecedent variables, such as ownership, strategic orientation, or other memberships (e.g. biological orientation).

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