A Recent Development in Wine Classification Systems: Collective Family Ownership

Professor Jeff Gow

School of Commerce, University of Southern Queensland, Toowoomba, Australia; Department of Agricultural Economics, Stellenbosch University, Stellenbosch, South Africa

gowj@usq.edu.au

Associate Professor Jacqueline Dutton

French Studies, School of Languages and Linguistics, University of Melbourne

jld@unimelb.edu.au

Associate Professor Bligh Grant

Institute for Public Policy and Governance, University of Technology, Ultimo, Australia.

bligh.grant@uts.edu.au

Abstract

Purpose: There are complex and overlapping systems of wine classification. This paper aims to explore collective family ownership as a marketing strategy for wineries with special focus on the Australian First Families of Wine (AFFW).

Design/methodology/approach: This paper examines the history of classification systems and canvasses the literature for examples of classification based upon the recently emerging concept of collective family ownership.

Findings: The AFFW was created in 2009 made up of 12 long-established family-owned wineries. Now there are 11 member wineries. It is one of three such groups in the world. The defining criteria for membership is the production of an *iconic* or *flagship* wine. This luxury good component seeks to establish each brand as a Veblen good with an expectation of a price premium for the products from each winery.

Practical implications: The findings of this paper map the marketing strategy of the AFFW, laying the foundations for further investigation of practical implications via interviews and observational fieldwork.

Keywords: Wine classification systems; Wine marketing; Collective family ownership; Australian First Families of Wine; Veblen goods

1. INTRODUCTION

Wine classification systems deploy an ensemble of overlapping (i.e.: complementary *and* competing) markers to ground their methodologies. These markers include *inter alia* place, denoted as physical geography, 'Old World versus 'New World', nation-state boundaries or the more sophisticated concept of *terroir*. Methods and style of vinification, vintage, grape variety are also deployed, as is ownership, emphasised to a greater or lesser degree. In increasingly globalised value chains, these systems of classification cross the divide between being designed for production on the one hand and for consumption – or marketing – on the other.

As an element of these complex and overlapping systems of classification the concepts of excellence and luxury have always been salient (see, for example, Hall 2016). However, more recently traditional notions of same (see, for example, Wolf et al. 2016) have been augmented by a specific claim to *authenticity* grounded not in place, or price – or indeed in an intricacy of both – but ownership generally and family ownership in particular as the crucial marker of differentiation.

Against the backdrop of the multifarious types of wine classification systems, this study canvasses examples of new forms of classification based upon family ownership from across the wine-producing globe, investigating the *a priori* claim of authenticity grounded in collective family ownership set against typical markers as denoted by, for example, place and price. Three recent examples of this classification system have been identified, namely: *First Families of Wine* (Australia); *Family of Twelve* (New Zealand); and *Primum Familiae Vini* (France). The focus here will be upon the Australian First Families of Wine group.

Initially we are concerned with an evaluation of the current state of classification groups and the history of the development of classification systems generally. Nearly all have an attachment to place, although this is sometimes tangential. Family ownership of the wine is the main characteristic of the classification system that forms our central concern here. This does not, however, preclude concurrent membership of other classification systems. An examination of the characteristics of collective family ownership in the system of somewhat overlapping classification groups is undertaken with reference to the substantive theoretical and empirical literature.

In this paper we will examine in particular the emergence of collective family ownership as a 'new' form of wine classification system in the context of the Australian First Families of Wine group.

2. LITERATURE REVIEW AND PROBLEM STUDIED: THE HISTORY OF CLASSIFCATION SYSTEMS

Classification systems for wine have existed almost as long as the wine trade itself. As soon as wine was transported from its place of origin, it was branded with regionally recognisable symbols stamped into the amphorae that bore the precious liquid (Dutton 2019). Region of production was therefore the first formal method of classification that can be found, for example, in the remains of amphorae in archaeological digs in Bordeaux, whose ancient inhabitants appeared to prefer the Catalan wines of Tarraco (Tarragona) and Sicily (Berthault, 2000). The regional denomination is still in use today, especially in areas that do not have an official appellation system. In Australia, Geographical Indications (GIs) formalize to some extent the regional classification system for labelling, but do not extend to determine grape type, yield, or methods of vinification.

Appellations, in contrast, define not only location, but also grape type, yield, and methods of vinification. This form of classification therefore clarifies additional elements related to production. Although Chianti (Italy - 1716), Tokaj-Hegyalja (Hungary - 1730), and Douro (Portugal - 1758) were among the first officially sanctioned appellations in the world, it was the French who codified the appellation system in the wake of the phylloxera crisis in an attempt to combat both artificial wine and misleading labelling of wines made from grapes grown outside recognised regions. From the early 20th century, various attempts were made to enforce regulations around production, which were largely unsuccessful, until the creation of the *Institut National des Appellations d'Origine* (INAO) under the Loi Capus in 1935. Appellations represent a classification system now widely used throughout Europe, but have yet to be fully embraced in other wine producing regions of the world.

Classifications based on price began to emerge around the same time as the first appellations. The most famous example began in Bordeaux in the mid-18th century and resulted in the 1855 Bordeaux classification, listing 61 red wines and 27 white wines in a fixed ranking from 1st to 5th growth based on wine prices (Markham 1998). Burgundy, Champagne, and Saint Emilion have adopted their own systems of classified growths, but price is only one factor among many in their hierarchies. The only other classification based entirely on wine price is Langton's Classification of Australian Wine, established in 1990, following to a degree Orley Ashenfelter's quantitative analysis of the fine-wine market in *Liquid Assets* (www.liquidasset.com). Although most vineyard classifications have their historical origins in wine prices, land prices or land profits (Storchmann 2012: 8), the rise of "expert opinion" and competitions has camouflaged commercial concerns to an extent, privileging producer pride and consumer pleasure over perceived profit.

Another classification that has evolved over the last 50 years or so is numerical rating, made popular by U.S. wine critic Robert Parker in the 1970s and embraced by Australian writer James Halliday, as well as various publications including *Wine Spectator*, *Decanter*, and many, many others. Jean-Marie Cardebat and Emmanuel Paroissien have attempted to overcome subjectivity by aggregating numerical ratings in their Global Wine Score (www.globalwinescore.com), (Cardebat and Paroissien, 2015).

In addition to these classifications, more general classifications guide consumers in their choices, such as:

- Vinification method and style – still, sparkling, dessert, fortified and by colour.
- Vintage – wine coming from grapes grown in a specified year.
- Varietal – specific or dominant grape varieties used to make wine e.g. Riesling, Chardonnay, Shiraz etc.

Each classification has been developed with particular aims related to regulation of production, consumer information, and promotion of prestige, quality and value. The emergence of collective family ownership as a classification system differs from these other classifications in that it foregrounds a long-established tradition that has only recently been recognized as adding value to the end product.

3. RESEARCH OBJECTIVES AND HYPOTHESIS: THE POSITIONING OF CLASSIFICATIONS BASED ON COLLECTIVE FAMILY OWNERSHIP

One aim of this research is to establish how classification based upon collective family ownership is positioned in the historical and current systems of wine classification.

European viticulture has traditionally been dominated by family businesses, with family names representing authenticity in 'Old World' wine industries. When translated into the contemporary context of the global wine industry, where large-scale commercial producers have a greater footprint (Simpson 2011), this 'Old World' *a priori* adds value to 'New World' family owned wineries, functioning as a code not only for authenticity, but also quality, given perceived links between heritage and luxury (Lipovetsky and Roux 2003).

Current research on family owned wineries focuses mainly on issues of comparative business practices (Bresciani et al), gender relations (Bessière 2014), and storytelling (Sexton 2013) in French and Italian wineries. The most relevant research to our paper is an exploratory study on using family heritage to market wines in Victoria (Australia), which concludes that this 'Old World' practice is an effective strategy for 'New World' wineries (Strickland et al 2013).

3.1 Australian First Families of Wine (AFFW)

In 2009, against a backdrop of depressed global demand and falling unit price (see Fleming et al., 2014; Grant, Gow and Dollery 2011) the AFFW was created by 12 family owned Australian wineries. Together they represent 16 Australian regions across four state (or provincial) jurisdictions and have more than 1300 years of winemaking experience and 40 generations of winemaking experience.

The members of AFFW at the time of inception were long-standing producers of well-known brands: Brown Brothers, Campbells, D'Arenberg, De Bortoli, Henschke, Howard Park, Jim Barry, McWilliams, Tahbilk, Taylors, Tyrrells, Yalumba.

In mid-2019, De Bortoli was dropped from the AFFW. There are now 11 member families as profiled in the recent publication, *Australia's First Families of Wine* by Richard Allen and Kimbal Baker (November 2019). They collectively own more than 5000 hectares of Australia's finest vineyards.

Essential criteria for membership are:

- Having a 'landmark wine' in their portfolios listed under Langton's Classification and/or 75% agreement by the group that a wine is considered 'iconic'
- Being family-controlled

- Having the ability to do at least a 20-year vertical tasting
- Having a history of oenology going back a minimum of two generations
- Ownership of vineyards more than 50 years old and/or ownership of distinguished sites which exemplify the best of *terroir*
- Long-term commitment to export, environmental best-practices and appropriate cellar door experience
- Family-member service on wine industry bodies, and
- Membership of the Winemakers Federation of Australia (WFA).

The motivation for AFFW establishment was described in 2010 by James Halliday in his Foreword to *Heart and Soul: Australia's First Families of Wine* as:

> [T]he realisation that export markets had either lost sight of or had no way of knowing about Australia's rich history, its diverse regions and wine styles, and the fierce personal commitment of the best winemakers to the production of high-quality wines true to their variety and geographical origin...The challenges for Australia are clear enough. What Australia's First Families of Wine can and will do is turn words into actions, ambitions into concrete results (Halliday, 2010).

Clearly, these 12 long-established family-owned wineries decided upon collective action to separate themselves from the bulk of Australia's wine producers by drawing a series of markers pointing to their superior quality.

In his Foreword to *Australia's First Families of Wine*, Halliday brought his assessment of the wine marketplace up to date:

> Wine is now a far larger internationally traded commodity, and methods of marketing are changing at a pace inconceivable twenty years ago… It might be thought that the members of First Families are at a disadvantage in this Brave New World. Not so. They will continue to enjoy advantages unique to the individual members, notably rapid decision-making on matters ranging from great to trivial importance. The synergies flowing from this are obvious, and the decision to proceed with this book in English coupled with a Mandarin translation is to be applauded (Halliday, 2019).

This 'rapid decision-making' may well refer to the expulsion of De Bortoli from Australia's First Families of Wine, made public, albeit discreetly, through the publication of this 10th anniversary collectors' item book including only 11 families of winemakers. Stephen Henschke's Introduction mentions 'like-minded families' and being 'well placed to claim ownership of the "family" mantle'. He also states that:

> As Australia's First Families of Wine has evolved, so too has the next generation. Having grown up immersed in the world of wine, with a deep understanding of family wine businesses, they are imbued with the pioneering spirit of their forebears, a respect

> for the work of the generations before them and an exciting approach to the future. Also a great sense of pride and responsibility. They are the future (Henschke 2019).

The new ethos of future generations has been embraced by Brown Brothers, whose latest generation of family members in the wine business includes not brothers, but sisters Emma, Katherine and Caroline, prompting their father Ross to rename the company The Brown Family Wine Group in September 2018.

4. RESEARCH METHODOLOGY

The characteristics of collective family ownership in the wine industry are not dissimilar to those of generic family ownership, Family owned wineries constitute the majority of production units, but not overall production quantity, in many wine producing countries. However, for collective family ownership members the additional focus on luxury and exclusiveness, length of time in the industry and service to the industry is an attempt to differentiate themselves from other family owned wineries. The overall aim is to obtain price premiums for their member's products. The theoretical basis of the defining characteristics of collective family ownership are now discussed.

The first and foremost difference is the establishment of their wine and/or brand as a Veblen or luxury or 'snob' good (Veblen, 1899). Veblen goods are products where demand rises as price rises. This is usually because people think that more expensive 'iconic' goods are better quality and so people buy more (Kapferer et al, 2014; Hojman, 2016). Related to the Veblen concept are positional goods which are scarce and are desired for their ability to show success and conspicuous goods which people buy to indicate social status or success. In both instances when prices rise, people want to buy more. The 'landmark' or iconic wines of the AFFW members are constructed to achieve the Veblen effect.

There is no consensus regarding what attributes a product must possess to be classified as luxury in the existing literature (Wolf et al, 2016). The conceptualisation of luxury is multi-faceted; however a commonly held view is that luxury is any product with a high enough price especially if it restricts to consumption of the product to only the few (Kapferer et al, 2014; Wolf et al, 2016).

Attempts to create iconic status wine which leads to increased prices should lead to an increase in the reputation of the producer. This self-reinforcing loop was first outlined by Shapiro (1983) who suggested that high-quality reputation producers receive price premiums because they sell wine to consumers who suffer from information asymmetry. The price is high, the producer is therefore high quality and vice versa. Combris et al. (1997) demonstrated that for French wines consumers are indeed willing to pay premium prices for good reputations. There is much theoretical and empirical evidence which suggests that wine price premiums are likely to be associated with producers who have a high quality reputation (Oczkowski & Doucouliagos, 2015; Oczkowski 2016).

The history of wine classifications has been mapped here to serve as an evaluative framework in which classifications based upon collective family ownership of wineries can be positioned. The relative benefits to members of collective family ownership classifications (in particular AFFW members) are now discussed.

5. RESULTS / FINDINGS

Individual wineries are attempting to achieve multiple objectives through their membership of this collective family ownership classification.

First and foremost though is to create an exclusiveness for their brand to enable price premiums to be obtained for their icon and other wines. Caracciolo et al. (2016) compared the pricing implications of private and collective firm strategies. The effects of the two reputation strategies have a different weight according to the price segment of the wine. While private reputation plays a major role in both low and high priced wines, collective reputation, especially based on geography, seems especially important for high priced wines. Costanigro et al. (2010) examined the impact of collective reputations on market price. The results show how the structure and relative importance of reputations change as prices vary. Specifically, reputation *premia migrate* from collective to specific brands and wines as prices increase. Frick (2016) examined German wineries and found that the price premium that a high quality firm earns induces it to maintain its reputation. Without premiums, firms in a collective group would find that an opportunistic strategy of quality reductions is profit maximising in the short run without enforceable guarantees of quality.

Another major issue is the nature of the collective family ownership classification. Tirole (1996) coined the term ‘collective reputation’. Costanigro et al. (2010) used it in the context of multiple agricultural firms sharing a common name or instances in which products are traced to groups of firms. Classification systems based on region result in levels of quality being associated differentially.

However, collective reputations have several characteristics which are problematic. Because a public good is a good that has both non-excludable and non-rivalrous characteristics in that individuals cannot be excluded from use, there is the incentive to free ride. Shapiro (1983) commented on the implication for individual sellers to reduce the quality of their product and take short run gains before consumers catch on and to free ride on their collective partners. To reduce this occurring minimum prices at a premium above cost are mandated. Dressler (2016) examined collective and individual reputation effects in Germany. His major finding was that being a privately managed winery and belonging to a closed quality circle of similar producers maximises quality reputation and increases prices. The converse is true of membership of negative collective reputation groups.

Winfree and McCluskey (2005) outlined how in a collective there is an incentive for individual firms to choose quality levels that are sub-optimal for the group. This outcome supports the imposition of minimum quality standards for all members. Castriota et al. (2015) analysed the determinants of collective reputation and found that they are history dependent. Other fundamental drivers of group reputation identified were minimum quality standards and effective enforcement of same. They also found that the relationship between group size and collective reputation is non-linear, with ease of entry creating free-rider problems resulting in non-optimal outcomes.

6. THEORETICAL AND MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

Management of collective family ownership companies must constantly work through the benefits and costs of remaining members of groups like the AFFW. Can they individually obtain greater benefits (mainly higher prices) as a result of their membership as opposed to going their own individual way?

7. CONCLUSIONS

This paper firstly reviewed wine classification systems in general and collective family ownership in particular. *Prima facie,* several motivations for belonging to the AFFW can be deduced. These include primarily economic ones – creation of a luxury good using their landmark/iconic wine can result in price premiums being obtained for all of their wine products which will help to push against the market power of multinational wine conglomerates and as a mechanism to halt the declining unit price of Australian wines sold on the global market. Secondly, are the social/cultural reasons of authenticity, storytelling, and multi-generational experiences to increase demand for their wines as exemplified by their long history with multiple generational vines and the ability to undertake 20 year or more vertical tastings and their membership of and service to wine industry bodies.

The empirical estimation of the impacts of collective family ownership on prices, profits and market share is the next logical step in this body of work. In particular this is to understand if the Veblen effect is valid in the case of the 'landmark/iconic' wines of AFFW members.

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