Crossing Categorical Boundaries: The Implications of Switching from Non-Kosher Wine Production in the Israeli Wine Market

Peter W. Roberts
Tal Simons
Anand Swaminathan

Markets are often comprised of categories that are separated by variably sharp categorical boundaries. Publicly-traded firms are organized into industry categories (Zuckerman, 1999). The motion picture industry in the United States is segmented by genre (Hsu, 2006) and then according to an independent-versus-Hollywood categorization (Zuckerman & Kim, 2003). Effective categorical participation often requires the possession of a clear and appropriate organizational identity. Thus, categorical boundaries influence the performance prospects and the mobility options of the organizations competing in the market.

Switching or straddling market categories raises questions about an organization’s appropriateness or fitness. As such, films (or Italian wines) that span genres (or winemaking styles) tend to receive less favorable reviews from critics (Hsu, 2006; Negro, Hannan & Rao, 2008), while (especially young) actors whose careers have spanned multiple genres have a harder time getting work (Zuckerman et al., 2003). In this paper, we further explore the market penalties associated with switching market categories that span strong identity barriers. More specifically, we ask do these penalties relate more to consideration or valuation. Zuckerman (1999: 1399) reminds us that “a seller must offer products that conform to accepted types lest such offerings be screened out of consideration as incompatible to others.” Once considered, products from producers with unclear or inappropriate identities might sell at a discount that reflects their misalignment. We then ask does the severity of these two penalties depend on the orientation of the audience. Emerging theories of the implications of identities and categories center on audience members interpreting and then responding to products and producers found within or across market categories. These audience members will certainly vary in the degree to which they respond to the identity code violations that tend to produce the above consideration or valuation penalties.

Switching to the Kosher Form in the Israeli Wine Industry

Our analysis is set in the context of the Israeli wine industry, which has exploded over the last 25 years (Simons & Roberts, 2008). In the early 1980s, the industry was comprised of only five commercial wine producers. All of these wineries made wines of fairly low quality and all but one very small producer made only kosher wines. By 2008, the industry had grown to include more than 140 active
producers. Many of these wineries now make very good wines and the majority of them make non-kosher wines. Elsewhere, it has been argued and demonstrated that the emergence of these non-kosher wine producers in Israel represented the arrival of a novel organizational form (Simons & Roberts, 2008). The categorical boundary between kosher and non-kosher wine production is made salient by a number of factors, including those related to identity. On the one hand, quality-oriented wine consumers have had to unlearn their strong but incorrect belief that kosher wines are necessarily of low quality. On the other hand, more religious consumers continue to place primary emphasis on a wine’s kosher designation (and kosher identity) above any concerns about quality distinctions across producers.

So salient is the boundary separating kosher and non-kosher wine production that there have been no permanent examples of Israeli producers making both kosher and non-kosher wines simultaneously.¹ Nor has there ever been a case of an Israeli winery switching from the kosher to the non-kosher form. The same was true for switches from non-kosher to kosher production up to the 1999 vintage. Since then, thirteen Israeli wineries have switched from non-kosher to kosher wine production. These switches are tantamount to crossing an identity-based categorical boundary and should thus have implications for consideration and valuation among more religious audience members who might question or object to producers that have only recently become kosher. Because the kosher form still has residual low-quality connotations, these switches might also produce penalties among quality-oriented consumers who equate a producer’s switch to kosher production with it vacating its quality aspirations.

These thirteen form-switchers afford us the opportunity to examine the implications of crossing salient categorical boundaries. Starting with this sample, we construct two matched samples of thirteen producers each that were founded and remained as kosher and as non-kosher producers. We compare the switchers to these two different groups on two outcome variables that might indicate the consideration and valuation penalties discussed above: the probability of being purchased and the average retail price at purchase (controlling for a host of other relevant factors). Comparing switchers to those founded as kosher producers identifies penalties associated with a straddled organizational identity. Comparing switchers to those that remained non-kosher producers identifies the penalties associated with switching forms. We then examine whether the observed penalties are stronger among more religious consumers that care more centrally about a winery’s kosher identity. We close with an examination of whether the penalties of shifting forms are also variable across consumers that care differentially about product quality.

The data for our analysis come from a number of sources. The sample of Israeli wine producers and their designation as kosher, non-kosher or switchers are from various versions of Rogov’s Guide to

---

¹ There were two experiments with joint production albeit at separate facilities – at Chillag and Saslove – starting in 2003 that lasted for only a few vintages.
Israeli Wines (Rogov, 2006). We then consult the extensive archive of wine reviews conducted and published by Daniel Rogov and gather all of the reviews of wines made by our 39 sampled wineries.\(^2\) This latter source indicates the universe of wines available for purchase from each producer, as well as the perceived quality of each wine. We then purchased scanner data from an Israeli market research firm called StoreNext. StoreNext collects monthly sales and retail price data for wines available for purchase at a range of stores within Israel, including general retailers and specialty wine shops. These are broken into orthodox and non-orthodox segments. In the orthodox segment, ‘80% of the customers that enter the stores are Jewish orthodox and most of the items that are selling in the store are made especially for this sector.’ This distinction allows us to examine whether sales and retail price differences between switchers and always-kosher producers vary depending on the religiosity of the audience. We expect that being formerly non-kosher will pose a greater threat to identity in the more orthodox segment. We then conduct a similar analysis of the differences that depend on the quality orientation of the audience by comparing sales and average price differences observed in generalist retailers versus the specialty wine shops.

References


\(^2\) See [http://www.stratsplace.com/rogov/wine_reviews.html](http://www.stratsplace.com/rogov/wine_reviews.html).