# Padua 2017 Abstract Submission

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**Keywords**
Family ownership; Wine classification systems; Wine marketing; First Families of Wine, Australia.


**Research Question**
In this study we will examine the emergence of collective family ownership as a 'new' form of wine classification system in the context of the Australian First Families of Wine.

**Methods**
Examine the economic implications and empirical evidence for the collective family ownership classification.

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


**Abstract**
Background:
Wine classification systems deploy an ensemble of overlapping (i.e.: complementary and competing) markers to ground their methodologies. Delineated by inter alia place, denoted as mere physical geography, 'Old World versus 'New World', nation-state boundaries or the more sophisticated concept of terroir; or by methods and style of vinification, vintage, varietal or defined by ownership in increasingly globalised value chains, these systems of classification cross the divide between being designed for production on the one hand and for the 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 excellence and luxury (see, for example, Wolf et al. 2016) have been augmented by a specific claim to authenticity grounded not in place, or price – or indeed 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, inter alia, (place and price). Three examples of this classification have been identified: First Families of Wine (Australia); Family of Twelve (New Zealand); 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 history of the development of classification systems generally. Nearly all have an attachment to place, although this is sometimes loosely-based. Family ownership of the wine is the main characteristic of the classification system of interest here. This does not however preclude concurrent membership of other classification systems. An examination of collective family ownership in the system of somewhat overlapping classification groups is undertaken with reference to the substantial theoretical and empirical literature.

Objective:

In this study we will examine 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.

History of Classification Systems:

Classification systems 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. Region of production was therefore the first formal method of classification that can be found, for example, in the remains of amphorae in archeological 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 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 unsuccessful until the creation of the Institut National des Appellations d’Origine (INAO) under the Loi Capus in 1935. Appellations represent a classification system used widely 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 is the 1855 Bordeaux classification, listing 61 red wines and 27 white wines in a fixed ranking from 1st to 5th growth (Markham 1998). Burgundy, Champagne, and Saint Emilion have adopted their own systems of classified growths, but price is one factor among many in their hierarchies. The only other classification based entirely on price is Langton’s Classification of Australian Wine, established in 1990.

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.

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.

Australian First Families of Wine (AFFW)

In 2009 AFFW was created by 12 family owned Australian wineries. Together they represent 16 Australian regions across four states and have more than 1200 years of winemaking experience.

The members of AFFW are long standing producers and well known brands: Brown Brothers, Campbells, D'Arenberg, De Bortoli, Henschke, Howard Park, Jim Barry, McWilliams, Tahbilk, Taylors, Tyrrells, Yalumba.

Essential criteria for membership are:
• Having a "landmark wine" in their portfolios listed under Langton's Classification and/or 75% agreement by 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 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
• Membership of the Winemakers Federation of Australia

The motivation for AFFW establishment was “the realization that export markets had either lost sight of or had no way of knowing about Australia's rich history, it's 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).

Methods:
Examine the economic implications and empirical evidence for the collective family ownership classification.

Motivations:

Prima facie several motivations for belonging to the AFFW can be deduced. These might include:
[i] Economic – create a luxury good using their landmark/iconic wine and obtain a price premium 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.
[ii] Social/Cultural - authenticity, storytelling, multi-generational experience;

Discussion:

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

First and foremost though 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 but 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 for French wines that 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).

A major issue is the collective nature of the 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.

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 quality 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.

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 it is history dependent. Minimum quality standards and effective enforcement are fundamental drivers of group reputation they found. They also found the relationship between group size and collective reputation is non-linear with free and ease of entry creating free-rider problems and resulting in non-optimal outcomes.

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.

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.

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.

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 to understand if the Veblen effect is valid in the case of the 'landmark/iconic' wines of the AFFW members.