25

Individual and Collective Reputations in the Wine Industry

Florine Livat

25.1 Introduction

At first glance, the wine world seems characterized by two different models of reputation that reflect varying cost structures, wine technologies, and wine styles. The so-called New World[1] (Argentina, Australia, Chile, New Zealand, South Africa, and the United States) is known to promote private brands and non-blended wines with varietal labeling that are easy for buyers to recognize. The Old World (European and Middle Eastern countries with a long-established history of wine production, since at least Roman times) produces wines characterized by a profusion and even proliferation of geographic indications (GIs) and appellations of origin (AOs). GIs and AOs have some common attributes. Wines with this kind of identity are owned and marketed collectively by unions, associations, trade bodies, or other kinds of coalitions.

[1] According to Banks and Overton (2010), the Old World–New World dichotomy, which structures much of the thinking about the wine industry, is not relevant anymore. Indeed, this segmentation neither represents the complexity of production and marketing in these broad regions, which are not homogenous, nor takes into account the rapidly expanding wine production and consumption in China and India, and even Brazil. These authors suggest the addition of a "Third World" category. Some other authors recommend creating a new niche in the global wine markets, a "Historic World," which is dedicated to wine-producing countries using mostly indigenous grape varietals, such as Armenia, Georgia, or Israel (Keushguerian and Ghaplanyan 2015).

F. Livat (✉)
Kedge Business School, Bordeaux, France
e-mail: florine.livat@kedgebs.com

A. Alonso Ugaglia et al. (eds.), *The Palgrave Handbook of Wine Industry Economics*,
https://doi.org/10.1007/978-3-319-98633-3_25

On the contrary, branded wines aim to distinguish themselves among competing products and have an individual owner. As such, these two seemingly opposite reputation models appear to coexist in the wine industry, but such a categorization might be simplistic. Reputation is not supported by a unique model in the Old World or the New World, and this is what we will illustrate in this chapter.

Reputation, which is defined by economists as a perception of quality,[2] emerges in situations of incomplete information. In wine markets, where a typical experience is usually shared, reputation becomes a key asset, as summarized by Fombrun and Shanley (1990, p. 233): "by signaling consumers about product quality, favorable reputations may enable firms to charge premium prices, attract better applicants, enhance their access to capital markets, and attract investors." Castriota and Delmastro (2012) identify three different sources of reputation for wine:

– International, national, regional, or local institutional reputation results in wine classifications that guarantee a minimum level of quality. The European Union (EU) wine laws imply that wines produced within the EU are divided into two quality categories, each with different rules for winemaking practices and labeling: Table Wines (TW) and Quality Wines Produced in Specified Regions (QWPSR). In the United States, the Alcohol and Tobacco Tax and Trade Bureau provides the American Viticultural Area (AVA) system; every AVA is a US winegrape-growing region with well-defined boundaries and distinguishable by geographic features. There is no regional- or quality-based hierarchy, and some larger AVAs contain smaller ones within their boundaries (known as sub-AVAs). Both systems support institutional reputations.
– Coalitions of producers define production rules. Castriota and Delmastro (2012) talk about collective reputation, which can be associated with AOs and/or with groups of AOs when several appellations coexist within a single regional vineyard. These coalitions are funded through fees—compulsory or not—provided by producers. The Wines of Chile Association, which represents the viticultural producers of Chile, is in charge of promoting Chilean wine in national and international environments. As such its mission is to develop a collective reputation. In Italy, the Consorzio Del Vino Brunello Di Montalcino is an association of producers that aims to

[2] "The term 'reputation' expresses what is generally said or believed about the abilities and/or qualities of somebody or something" (Belletti 2000, p. 239).

enhance the image of wines produced in the Tuscany wine region benefiting from the Brunello di Montalcino denominazione di origine controllata e garantita (DOCG), a local AO.

– Single wineries provide individual reputations. Quite often, individual reputation is conveyed and even incarnated by the brand name. Yellow Tail is one of the biggest wine brands; Shalauri Cellars is another one, produced in the Kakheti region of Eastern Georgia. A single winery can provide several individual brands, each with a specific blend or varietal.

Examples of the three sources of reputation in the wine sector can be drawn from Old and New World countries, suggesting a strong interpenetration of both reputational models.

In this chapter, we focus mainly on institutional and collective reputation, given that the role of brands is extensively analyzed in the marketing literature: how it emerges and which effects are produced. Considering reputation effects, origin and brands can be conciliated. In Sect. 25.2, we present briefly some historical elements to understand why appellations and brands and varietals prevail in, respectively, the Old and New Worlds. In Sect. 25.3, we present how appellations act in wine markets. In Sect. 25.4 we discuss how origin can be seen as a brand, and in Sect. 25.5 we present some failures of collective reputation. We conclude our thoughts in Sect. 25.6.

25.2 Brief History of the Wine Industry

Two distinct models of the wine industry have evolved since the eighteenth century: the Old World, which is highly fragmented, grounded in certification of origin and the official classification of wines as a vehicle for collective reputation, and the New World, which is more concentrated and based on individual brands as a vector for individual reputation.

25.2.1 Old World and Appellation of Origin: A Review

France created the first European label of origin systems—the appellation d'origine controlee (AOC)—which was conceived of as a protected designation of origin (PDO), that is, a geographic indication certified by the government: "Products covered by AOC labels are controlled by the state to ensure both their territorial origin and their conformity to precise rules for production and processing that guarantee their 'typicity,' or distinctive character"

(Barham 2003, p. 128). This designation occurred in a specific industrial and institutional context. Indeed, the economic features of winegrowing as well as the intrinsic uncertainty of winemaking come from the fact that traditionally in Europe, winegrowing and winemaking are integrated in a single, small family business, whereas marketing and trade are carried out by merchants in charge of domestic and international distribution (Simpson 2011a). This specific organization of the French wine industry resulted from the market instability produced by the mid-eighteenth-century phylloxera crisis and other vine diseases (powdery mildew), which have weakened the position of most winemakers and strengthened the position of the merchants in the commodity chain. It has also provided incentives for the emergence of a regulatory framework allowing for the creation of appellations of origin, thanks to the lobbying of winemakers in a context of wine fraud and adulteration.

In the late 1780s, Young (1794, pp. 24–25, quoted in Simpson 2011b, p. 44) noted that in France, the cultivation of vine depended "almost entirely on manual labour … demanding no other capital than the possession of the land and a pair of arms; no carts, no ploughs, no cattle." Low entry costs, little capital expenditure apart from planting the vineyard, and the ability to use small plots of land to grow vines competitively compared with other crops were attractive, but there were some negative aspects, such as few economies of scale, huge weather effects, and risks of pests and vine diseases. As summarized by Simpson (2011b, p. 44), "grapes had to be processed quickly because they were easily damaged or diseased, and therefore family growers also made their own wine." Using wage labor or some form of rental arrangement was inappropriate due to a classical moral hazard problem: workers or tenants treat the vines with less care than the owners, given that wages were not sufficiently high to ensure good-quality work, and the vines could be permanently injured if different viticultural operations were poorly carried out, even for a single year. Some exceptions were found in Bordeaux, where fine-wine producers developed a contract that provided good working conditions and wages to ensure that workers returned each year, developing know-how and increasing their level of care and time devoted to vines to improve the harvest quality (Simpson 2011a).

By the end of the eighteenth century, after the 1789 French Revolution, winemakers and wine merchants had to deal with counterfeiting. Words such as *Bordeaux* or *Champagne* were generic names used by foreign traders to sell wine from a different origin. If in the Bordeaux region certain châteaux and individual brands were successful, elsewhere traders exerted increasing control over the producers. This occurred in Champagne, where negociants dominated the market because they manufactured the products and mixed them.

Simpson (2011a) notes that blending provides numerous opportunities for fraud and adulteration.[3] In Bordeaux, some new comers among wine estate owners also sold low-quality mixed wines, creating division among winegrowers themselves. Even if unions and professional associations were created, the conflicts remained, and local lobbies tried to influence every regulation (Stanziani 2004). As summarized by Stanziani (2004, p. 158), "during all the 19th century judicial interpretations guaranteed the protection of individual trade-marks and brands but they refused to take in consideration collective marks and generic names." Information for the consumer was unclear, the average quality decreased, and generic names suffered from a loss of reputation. At that time, reputation already played a major role in markets. If fine wines were sold under brand names, and commodity wines were sold to merchants for blending, "consumers might not be able to tell exactly what had been added to the wine they were drinking or where it had been produced, but they could make a choice of which retailer to frequent, being influenced no doubt by that person's reputation for fairness, quality, price, or good company" (Simpson 2011a, p. 23). The instability of quality from one harvest to the next made it impossible to create brands, and thus the retailer's reputation was crucial.

From the late 1850s to the mid-1870s, the phylloxera disease, transmitted by an aphid, destroyed most of the French vineyard. The American vines were aphid-resistant, so the task of reconstituting the French vineyards by means of grafting traditional French vines onto American rootstock began by the end of the nineteenth century. This redevelopment of winegrowing areas drove merchants to misuse denominations of origin and even poison consumers with fake products (Marie-Vivien 2010). The phylloxera crisis also forced merchants to search for alternative supplies: in foreign countries or by adding sugar to grapes. But "the subsequent recovery in domestic production was not accompanied by a marked reduction in these supplies, and growers had to stand by and watch prices, and their profits, fall steeply from the turn of the twentieth century, leading to demands that the government intervene" (Simpson 2005, p. 528). At the same time, the combination of falling transport costs, urbanization—implying that consumers no longer knew the origin of the wine—and rising real wages led to consumption per capita increasing

[3] "Fraud involved selling wine under the label of a private brand such as Moët & Chandon, or collective regional brands (Bordeaux or Champagne) when it had been produced elsewhere. Adulteration, by contrast, consisted of adding ingredients that were considered illegal or 'unnatural' to wine and the winemaking process like resin, honey, herbs but also lead and lead compounds" (Simpson 2011a, p. 7). For a series of examples, see Holmberg (2010).

from 76 liters in 1850–1854 to 168 liters in 1900–1904 (Nourrisson 2013). As a result, "as the distance between the producer and consumer increased, so did the economic power of the merchants, who were able to purchase their wines over an increasingly large area" (Simpson 2011b, p. 45).

At the beginning of the twentieth century, many producers were encouraging a state intervention. Former professional representatives were excluded and new commissions were organized with technicians and agronomists. Vine diseases forced governments to invest in research and new winemaking technologies to improve wine quality (Simpson 2011b), even if scientific progress made it easier for potential fraudsters. In several wine regions, winegrowers pointed out that consumers required information and a guarantee of quality, especially if they were willing to pay more to avoid drinking fraudulent and/or adulterated wines. Despite the oppositions of merchants and conflicts in establishing geographic boundaries, as winegrowers and rural workers became more organized, their political influence increased (Simpson 2005) and several laws were enacted in 1905, 1908, 1919, 1927, and 1935 to allow for the creation of the French appellation system.[4] According to Stanziani (2004, p. 149), this system is required "when neither the market alone nor the individual marks provide efficient information on the quality of goods." For Jacquet (2009), who studies the appellation system in Burgundy, the regulation associated with the AOC labeling also aimed to avoid rural depopulation and promote the republican order. Nowadays there are more than 350 AOCs in France. Spain and Italy have followed this trend. In Spain, the denominación de origen (DO) appellation system was first developed in the Rioja wine region in 1926. The denominación de origen calificada (DOC), or denominació d'origen qualificada (DOQ) in Catalan, is a higher category of Spanish wine, reserved for regions with the highest grape prices and stringent quality controls. Rioja was the first Spanish region to be awarded DOC status in 1991. The Italian government introduced the system in 1963 with currently three levels: DO (designation of origin, seldom used), DOC (controlled designation of origin), and DOCG (controlled and guaranteed designation of origin). To reinforce the effect of certification, wines are tasted by government-licensed professionals before being bottled, and DOCG wine bottles are then

[4] Simpson (2005) shows that if establishing regional appellations has helped growers in winning back market power in the Bordeaux and Champagne vineyards, another response was shown in the Midi region (Languedoc area): the creation of producer cooperatives, better equipped than merchants to classify wines and guarantee quality for consumers, has provided incentives to plant quality vines and allow growers to capture the growing economies of scale in wine production and marketing. This creation occurred because the sector was united (small and large growers and even merchants also affected by low prices) and mass demonstration in 1907, previously unknown in France.

sealed with a numbered governmental seal across the cap or cork, which results in a paper strip if torn out during opening. For a presentation of the EU wine classification, see Delmastro (2005, p. 2).

The economic and institutional features of the European wine industry, generated at least partly by some natural constraints, have allowed for the emergence of the appellation system as a support for collective reputation and to provide information about the products. The New World history is different.

25.2.2 New World: Brands and Varietals

Simpson (2011b) studied the exogenous changes that occurred in the wine industry between 1870 and 1914 in California, Australia, and Argentina, which evolved from a traditional viti-viniculture to a new organization of the commodity chain. By the beginning of the twentieth century, this chain was dominated by large industrial wineries producing wines that could be branded. In the New World, grape production was a specialist activity whereas winemaking and marketing were integrated into a single business.

In the 1850s, the New World wine industry was small scale. By 1900, in Australia, California, and Argentina, grape growing was a specialist activity and grapegrowers sold their grapes to winemakers, who also made a business of wine. Indeed, in the New World, climatic conditions made the vines much easier to grow than in the Old World. Harvest failures and diseases were far less frequent, and grape quality was more stable and less heterogeneous from one harvest to the next than in the Old World (Simpson 2011b). As depicted by Simpson (2011b), New World grapegrowers met with few problems, needing little capital to create new vineyards and other employment opportunities. Wineries need winemaking facilities, and their investments are linked to credit availability. When the market downturns, low prices do not allow for capital-intensive wineries to purchase grapes from independent grapegrowers who, as a consequence, crush the grapes themselves: the wine supply is not diminished but at the same time quality declines as independent grapegrowers are not necessarily skilled in winemaking. This increased separation between grape growing and winemaking has led to unbalanced growth between grape growing and winemaking.

In California by the end of the nineteenth century, facing falling prices and fraud, winemakers and wine dealers established collective associations to agree on prices and quantities. After several conflicts, the winemakers' corporation disappeared and horizontal consolidation as well as vertical integration allowed the wine dealers' trust (the California Wine Association) to control distribution and guarantee non-adulterated wines, while the political climate was relatively permissive toward big businesses and trusts. This provided the conditions to develop a mass market for wines and to invest in brand names. This market is characterized by limited competition, given that investments in production facilities and brands raise entry costs for potential newcomers.

Australia was the only New World country with a significant export trade, with a fifth of its national production sold in the United Kingdom. Australia's high internal tariffs as well as the narrowness of the domestic market provided an incentive to export even with high freight costs. But a long sea travel, some extreme temperatures during it, and a necessary rest of several months on the arrival of wines caused major quality problems for the wine trade. Simpson (2011b, p. 55) summarizes that "trusted agents were required at both ends of the chain: in Australia to check that only well-made wines were shipped; and in London to determine the appropriate remedies to correct the wines on their arrival." Two major London houses dominated trade. They specialized in Australian wines; invested in vineyards, winemaking facilities, European methods for viticulture and vinification; and bought large quantities of grapes, hired agents, and invested in modern techniques of advertising such as point-of-purchase communication, all necessary conditions to create a standardized product that could build consumer recognition. Even as the South Australian government tried to compete, providing incentives to plant vines and creating a vine depot in London, it failed to improve quality, and by 1911, three big players dominated the exports from Australia to the United Kingdom and were able to develop major brands.

A lot of European immigrants moved to Argentina before 1914. They were accustomed to drinking wine, so wine producers competed on price rather than on quality. By the end of the nineteenth century, there was a rail connection between Mendoza and Buenos Aires to take advantage of the good growing conditions for grapes, the winemakers who learned the needed skills to produce wines properly in the hot climate and use the upgraded winemaking equipment (Blanchy 2010). Grape growing is a specialist activity and grapes were sold to wine producers, who could sell large quantities of ordinary wines to agents, intermediaries, and/or retailers. Wine had been a basic beverage in the Argentine diet, and leaders such as Peròn as well as the military dictatorship encouraged the supply of plentiful cheap wines.

But during the twentieth century, the growth of the wine industry was very slow due to isolationist and protectionist policies enacted during the 1950s and, as a result, the Argentinian wine industry lacked innovation (Townsend and Tiefenbacher 2011). Facing a falling demand, the Argentinian wine sector destabilized, and in the 1980s, 36% of all vineyards were eradicated (Pont and Thomas 2011). The modernization of the wine industry started in the 1990s with the replacement of traditional varietals such as Criolla with Malbec. The focus of production has shifted from low-cost quantity to quality. The opening of international markets; some technology transfers; foreign investments by big, recognized players such as Mondavi, Lurton, and Chandon; the arrival of maverick winemakers; as well as the peso devaluation in 2002 (Mount 2012; Pont and Thomas 2011), even if disadvantageous to most citizens, made wines highly competitive in foreign markets and enabled the recognition of Malbec to become the emblematic variety of Argentina. If Malbec is not a brand, it has a strong economic and emotional connection to Argentina, where 70% of the world's Malbec vineyards are now planted.[5]

25.2.3 Two Different Models

Because of natural, institutional, and economic conditions, wineries from the New World mainly rely on "individual brand advertising" (BA) to promote quality perception and develop an individual reputation; European wineries use geographical indications (GIs) as a quality signal that allow them to share the costs of promotion and to develop a common reputation (Yue et al. 2013, p. 1). For Bureau and Valceschini (2003, p. 72), "the appellation of origin has proved successful in allowing even small producer groups to benefit from a well-established reputation." On the contrary, as studied in the marketing literature, a brand is a vector for individual reputation (see Lockshin et al. 2000).

In Sect. 25.3, we focus on geographic indications as a vehicle for collective reputation.

25.3 Geographic Indications and Collective Reputation

A DO is used traditionally to suggest specific production practices or look for natural endowments to positively affect wine taste. In the wine sector, emphasizing the place of origin as an indicator of quality is one way to differentiate products (Stasi et al. 2011), especially for connoisseurs (Atkin and Johnson 2010).

[5] See https://historyandwine.com/2014/07/02/cahors-france-the-french-malbec-story/; retrieved September 15, 2016.

25.3.1 Coalition of Economic Agents and the Collective Reputation Effect

"Wine denominations are a perfect example of coalitions of economic agents who share a common reputation" (Castriota and Delmastro 2011, p. 9). An appellation can be seen as a coalition of producers who operate within the same local area (Delmastro 2005). This coalition emerges because the wine industry is characterized by information asymmetry and is highly fragmented. Indeed, even if that sector has experienced consolidation recently, a lot of small and family-owned vineyards remain, especially in Europe (Roberto 2011). Sometimes, the owner is the sole full-time employee and has to be simultaneously a vine grower, winemaker, purchasing officer, salesperson, and so on (Edwards 1989). Moreover, these actors are often constrained by small marketing and advertising budgets (Yuan et al. 2004) or are not aware of contemporary marketing concepts to increase sales (Spawton 1986). With the creation of AOCs, there is the underlying idea that members of that coalition will benefit from the group image—as suggested by the collective reputation theory proposed by Tirole (1996)—and that belonging to a higher reputation group generates higher rents. However, Gergaud et al. (2017) show in the case of Bordeaux wines that collective reputation does not systematically offer net benefits to producers. Following Tirole's collective reputation theory (1996), Delmastro (2005) reminds us that an appellation's reputation depends on the rules that the coalition members have adopted, on their past and present behavior, and on the effectiveness of monitoring procedures. In the wine sector, the coalition exists at two different levels: (1) at every AO and vineyard, thanks to a wine commission if the vineyard is composed of several different appellations and (2) in a wine commission that is in charge of promoting the vineyard as a whole thanks to an umbrella, such as Bordeaux, Burgundy, or Toscana (Tuscan wines). According to Fig. 25.1, the umbrella can be seen as a geographical indication. Some producers do not use such umbrellas to avoid what they consider a declassification of their wines, especially when their brand has achieved recognition on the market and enjoys a high individual reputation.[6] As such, in some cases, appellations and brands are conceived as two models generating opposite effects.

[6] A great growth, such as Château Mouton Rothschild in Bordeaux, indicates the Pauillac appellation in the label, but it doesn't make any explicit reference to Bordeaux as a collective umbrella.

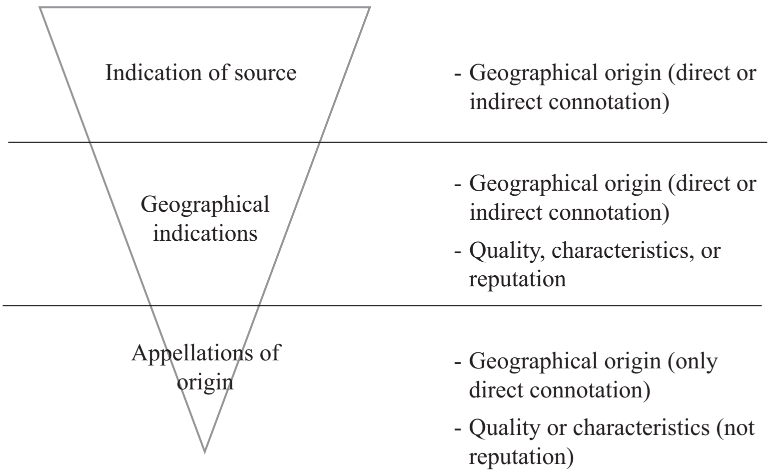

Fig. 25.1 Denominations of origin. (Source: Addor and Grazioli 2002, p. 870)

25.3.2 A Regulation to Increase Welfare and Efficiency that Generate Profits

Wine is a typical experience product, and wine markets exhibit imperfect information. In many countries, the public sector provides a certification of origin to solve at least partly the information problem. When this origin is certified by the government through an appellation of origin (AO), it becomes a collective quality signal. For instance, the European Commission has introduced legislation to guarantee that the product is produced in the mentioned region and allows producers to market their product with a label stating a PDO.

Stanziani (2004), who studies the emergence of the AO in France (called AOC), considers them to be collective marks that appear when neither the market alone nor the private individual quality signals provide efficient information on the quality of goods. For Meloni and Swinnen (2013), given that consumers have imperfect information and high ex ante monitoring costs about wine quality, regulations such as the AO guarantee a quality level or reduce information costs, which can improve welfare. Menapace and Moschini (2011) have shown that this kind of credible certification scheme reduces the cost of establishing reputation, compared to a situation in which only private brands are established, and improves the reputation mechanism to ensure quality.

For wine, in addition to origin, several restrictions, such as grape varietals, maximum yields, practices in the vineyard and in the cellar, and alcohol level, also apply before obtaining an AOC designation. Since 2008, the system is similar to that of taxes: winemakers must declare that their wine has been produced in accordance with AOC requirements; to assure this, wines are subject to random tests by an expert from a public agency. A given wine can lose its appellation status for a given vintage if it doesn't achieve the appellation criteria.[7]

Geographic indications (GIs) are viewed as public goods (Schamel and Anderson 2003) because they are used simultaneously by many firms that are free to enter and exit the market, provided that all the requirements are met (Moschini et al. 2008). Rangnekar (2004) views them as "club goods," non-rival, congestible, and excludable, and producers are free to decide the size of the club. Binding a brand to a territory also generates a profit for some groups of producers who have access to key assets or skills required to get the certification or the AOC, such as land and a vineyard that can't be delocalized or will damage owners of land and vineyards in neighboring areas where less reputed and less expensive wines are produced (Meloni and Swinnen 2013). Castriota and Delmastro (2014) notice that using a well-known geographical group brand enables small producers to get the benefits of a reputation profit. But Winfree and McCluskey (2005) show that when a collective reputation becomes a public good, there is an incentive to free ride, and the provision of quality decreases as the size of the group increases.

25.3.3 Translating Terroir and Protecting Traditions

Economists usually view certifications of origin as collective quality signals (Bramley et al. 2009). But AOC labeling can also be seen as a way to translate terroir (Barham 2003), which refers to natural qualities of a geographic area (soil, microclimate, slope, exposure, etc.) blended with human factors (know-how or particular techniques) perceived as confined to that area and history (such as public knowledge of a product originating in that area and recognition of the association between product and place). Behind AOCs and terroir there is the idea that unique values are, at least partly, generated by local places. Said differently, "to talk about terroir, it is necessary that the origin of

[7] See, for instance, Bordeaux producer brand Les Hauts de Pontet-Canet, which is usually awarded with a Pauillac appellation but didn't get it for the 2012 vintage:

http://www.decanter.com/news/wine-news/587659/pontet-canet-second-wine-loses-aoc-status?utm_source=Eloqua&utm_medium=email&utm_content=news+alert+link+24102014&utm_campaign=Newsletter-24102014

the production is clearly defined and that the peculiarities of the place are the guarantee of a minimum of typicality" (Mora 2016, p. 43). Several agricultural products can benefit from that certification of origin: wine, cheese, meat, lavender, lentils, honey, ham, butter, spirits, and so on. The number of products benefiting from a protected designation of origin is increasing in Europe (Profeta et al. 2010). Broude (2005) also views GIs as tools to protect cultural heritage and preserve traditional methods of production or to establish and preserve an identity. Addor and Grazioli (2002) also note that GIs are based on collective traditions. Vogel (1995) notices that some people attach value to regional traditions and are willing to pay a premium for it.

25.3.4 Origin Effect and Reputation

The promotion of a region of origin has a long history in the wine industry. Schamel (2006) has shown a trend toward more regional differentiation. On the academic side, origin has often been used as a vector for collective reputation used in empirical analysis. Indeed, several applications of a hedonic pricing method for wine refer to appellation, which includes group reputation (see, among others, Delmastro 2005; Landon and Smith 1997; Schamel and Anderson 2003).

An extensive body of literature has addressed the issue-of-origin effect[8] on wine perception, evaluation, and purchase decisions. Yue et al. (2013) show that region of origin, specifically geographical indicators, is an efficient tool to signal good quality. They cite examples such as the Champagne region of France in which well-known brands have invested in quality and advertising over a lengthy period, thus building and maintaining a successful collective reputation for the vineyard as a whole. In research by Batt and Dean (2000), the origin of wine was found to be a key variable affecting consumer purchase decisions. An argument for promotion of the region is also given by Hong and Wyer (1989), who demonstrate that origin has a direct influence on evaluation of a product and in addition encourages stronger consideration of the other attributes of the product. Consumers possess stereotyped beliefs about the quality of products from a country of origin (Samiee 1994). This is known as the "halo effect," suggested by Maheswaran (1994). Huber and McCann (1982) also demonstrate that origin can provide product quality signals when consumers are not able to ascertain or are not familiar with the actual quality

[8] For a review of the country-of-origin effect on perceived quality, see Verlegh and Steenkamp (1999). For an analysis of the region-of-origin effect, see Van Ittersum et al. (2003).

of the product. This is backed up by research from Elliot and Cameron (1994), who find that country of origin may be used as a quality indicator when the product cannot be assessed by objective criteria. As such, the link between origin and reputation seems obvious: origin is a means to enhance reputation and its vehicle.

According to Bruwer and House (2003), the image of a region of origin can be used as a point of differentiation if it can take advantage of the positive associations consumers have with that region. In some ways, origin acts like a brand and considering the two models as opposite isn't really accurate anymore.

25.4 Origin and Branding

More and more, GI and individual brands are used simultaneously in the wine world. As an example, as noted by Rasmussen and Lockshin (1999), since the early 1990s, many Australian wine companies have indicated regional brand names on their labels.

The brand notion is also meaningful in the French context with its use of AOCs. According to Viot and Passebois-Ducros (2010), managerial practices reveal three major types of brand strategy in the French wine industry:

– The merchant brand: usually blended wines that are made, bottled, and packaged by merchants and maintain a stable quality.
– The producer brand: any wine estate that grows vines and has winemaking facilities can create its own brand name, including using the word *château* traditionally in the Bordeaux vineyard or the word *domaine* in Burgundy.
– The retailer's brand: wine that is available only in the outlets of a single retailer.

At this point, origin and brand cannot be considered as two opposite models. They are often used jointly. Origin also has some dimensions of brands, as shown in the next section.

25.4.1 Regionality and Territorial Brands

Origin can also affect the concept of a collective brand. Moulard et al. (2015) show that origin affects consumers' perceptions of a wine's authenticity and their willingness to pay for it, with a positive effect in the case of Old World wines. Consumers can be emotionally attached to a place, based on previous visits to the wine region (Cardinale et al. 2016). Similar to brands, place can generate attachment and loyalty. And similar to any collective brand, place may act as a quality signal through spillovers that create reputation linkages among various products or individuals (Choi et al. 1995). Cardinale et al. (2016) identify that producing a good in a quality geographical area generates a competitive advantage for those goods, and that name becomes a place-based brand, because the area of origin is inimitable by competitors. And because it is collective, it reduces the marketing costs for every single winery.

Regionality is a concept that reconciles origin and brand and has been defined as the reputation a wine region has for producing wines with a particular style (Easingwood et al. 2011). When a wine region lacks regionality, it must compete on price, what is not easy given the huge supply in the wine world. Similar to brands (Lockshin et al. 2000), regionality is a differentiation device that forms a kind of contract between the producer and the consumer to obtain a consistent style of wine. Also similar to brands, regionality requires uniqueness. Developing the notion of territorial brands, Charters and Spielmann (2014) show that GIs have to be managed like brands. Territorial brands must have a natural link to a place, resulting in something that cannot be produced elsewhere, and it must be overarching, that is, encompassing all individual corporate brands in the territory. Champagne is an emblematic example of a territorial brand. It also illustrates the coexistence of brands and appellations (Charters and Spielmann 2014).

The effects of origin can be the same as that created by individual brands. At the same time, appellations have spread all over the world and can be used jointly with brands.

25.4.2 Appellations in the New World

Easingwood et al. (2011) note that there is now a plethora of denominations of origin in the New and Old Worlds. The US AVA that began in 1979 was inspired by the French AOC model. Geographical indicators in the EU delineate a certain region and in addition provide parameters on growing methods, yields, winemaking, aging, and more, all supposedly leading to higher-quality wines. By contrast, an AVA in the United States is defined solely as a geographical unit that possesses characteristics unique from the surrounding areas. The rules are less restrictive than in Europe, stating that 85% of the grapes must be grown in that AVA. There are no parameters for growing, winemaking, and other factors such as that seen in the EU. Thus, there is no "objective" assurance of quality. Blanchy (2010, p. 30) notes that a system of DOC was created in Argentina in 1999 but that in Mendoza few producers use it, even if it begin to capture consumers' attention (Defrancesco et al. 2012). Nevertheless, for export, most wineries do include non-protected geographical names on the label (Defrancesco et al. 2012) to generate an origin effect in consumers' minds. In Chile, the system is still in its infancy, but some regulations of denominations of origin have been evolving since 1995. For Schamel (2006), the trend toward regional differentiation is reinforced by the better protection of geographical indications in many countries, raising the rates of return on investments in regional promotion and suggesting that "marketing" a region can be rewarded even in the New World. Schamel (2009) also shows that in New Zealand high-quality brands rely heavily on overall regional reputation, and in California some highly reputed brands lose their strength and start to rely on regional reputation.

Using denominations of origin appears to be a trend in the wine industry, even in the so-called New World. But in some cases, it fails to improve reputation through a collective mechanism, as discussed in Sect. 25.5, and individual strategies remain relevant, at least jointly with collective ones.

25.5 The Failures of Denominations of Origin

25.5.1 Credibility of Certification and Proliferation of Information

The AOC system provides a product certification that acts to transform unobservable experiences, but it also gives credence to elements such as origin as observable search attributes (Auriol and Schilizzi 2003). Auriol and Schilizzi (2003, p. 3) define certification "as a process whereby an unobservable quality level of some product is made known to the consumer through some labeling system, usually issued by a third independent party." Considering that consumer confidence associated with certification is a major concern, these authors show that the sunk costs of certification enable the achievement of credibility and that certification is better accomplished by an independent body, either a private firm or a public agency. One specificity of GIs is that their recognition, administration, and control are shared by public and private bodies, depending on the system of protection (Addor and Grazioli 2002). But frauds still exist. Indeed, mixing wines from several appellations and mislabeling bottles regarding their origin are some common types of fraud (Holmberg 2010). Some winemakers also try to ridicule the appellation system: in the 1990s, Didier Dagueneau, a producer of outstanding Pouilly-Fumé AOC wines in France, got an AOC for his worst production, made with bad-quality grapes and branded "Quintessence of My Balls" (Doward 2005).

Meloni and Swinnen (2013) notice that government decision-making can be influenced by political pressures related to regulation-induced prices, which reduces overall welfare and efficiency, and that the AOC system is the result of efficient lobbying from wine producer organizations that put pressure on the French government. Teil (2010) note that since their creation AOCs have been suspected of not conveying reliable information. Nevertheless, their use is expanding in the world, and they coexist with many other strategies to reveal quality. As a consequence, the wine market has become complex, hosting hundreds of thousands of brands and other quality signals. The certification of origin can be associated with a brand (Lockshin et al. 2006), sometimes with a medal (Orth and Krška 2001), a back label (Mueller et al. 2010), or some other typical quality signals in the wine sector. The consumer can also use some other sources of information, such as grades and comments published by experts (Dubois and Nauges 2010), public opinion[9] (Ashenfelter et al. 2007), specific press, or even movies (Cuellar et al. 2009). This proliferation and even redundancy of information, labels, and appellations can produce distortions including consumers' lack of attention or trust and even misunderstanding (Anania and Nisticò 2004; Marette 2005). Viot and Passebois-Ducros (2010) show that there is confusion, in the consumer's mind, between the brand and the appellation of origin. Livat et al. (forthcoming) show that consumers cannot decipher the quality attributes that the different DOs are meant to signal, which questions the optimal number of AOs. In such a context, some producers, aware of the potential inefficiency of certification of origin to improve their reputation, question the role of coalitions as well as their own membership in such groups.

25.5.2 Coalitions are Challenged

In January 2013, the Loire appellation Montlouis-sur-Loire, a grouping of 72 wineries, broke away from the official Loire wine commission, named InterLoire, and decided to be responsible for its own marketing and promotion, withdrawing its funding contribution to the wine commission of only €70,000 for the whole group. They believe and hope to be more efficient individually and to improve their reputation. Another member, the Bourgueil appellation, decided

[9] Such as in 2003 with the US consumers' boycott of French wines.

to go it alone in 2009 (see Anson 2013). In the case of Bordeaux wines, in 2004 four appellations created their own subgroup: Côtes de Bordeaux is the umbrella for Premières Côtes de Blaye, Premières Côtes de Bordeaux, Côtes de Castillon, and Bordeaux Côtes de Francs appellations, all of whom share "the idea of creating a common sign of recognition." They consider that recognition is not provided by their single AOs, but they remain members of the regional wine commission (see their website bordeaux-cotes.com).

The AOC, as a coalition, is in charge of generic advertising, thanks to funds provided by the members. A return on investment is expected because of spillover effects from the collective reputation toward the individual reputation of the winery. In Bordeaux, a breakaway group emerged in 2010 because non-voluntary (i.e., compulsory) fees are not legal, and they felt that the regional wine commission was not working in the interests of those who compulsorily support it financially (Anson 2010). But in 2012, the court ruled that winemakers must pay the fees. Hence, in France at least, some actors consider challenging the coalitions. In US wine regions, Rickard et al. (2015) highlight that individual reputation outside of the umbrella region can be affected by a collective reputation, even if these individual producers don't contribute financially to the promotional efforts, through a reputation-tapping phenomenon. In the case of Bordeaux wines, Gergaud et al. (2017) show that if collective reputation generally provides some benefits to individual group members, the gains obtained from generic promotion by the wine commission do not always compensate for the costs of mandatory membership.

25.6 Conclusion

The wine market exhibits several different quality signals: individual and collective, private and public. The number of wines benefiting from a protected designation of origin is increasing in the Old World (Profeta et al. 2010) as well as in the New World (Easingwood et al. 2011). Similar to brands, AOs aim to signal quality. If brands support individual reputation, denominations of origin are a vehicle for collective reputation. Both coexist more and more frequently on the same label, suggesting in some way a convergence of both reputational models. Reputation is not supported by a unique model, neither in the Old World nor in the New World.

Reputation is a key variable in wine markets. The prolific literature on hedonic pricing highlights its positive effect on price. Livat (2007) has shown that consumers substitute Bordeaux appellations with the same level of reputation. Livat et al. (forthcoming) show that they substitute them according to semantic elements, that is, similar names as carriers of reputation, not according to intrinsic characteristics of wines associated with the production process (location, climate, and technology). If such a result pacifies appellations and brands by highlighting the power of names, it also suggests that the appellation system is not understood by consumers and is currently too complex to address informational needs in wine markets. Simplification and a lower degree of horizontal differentiation might be a better option.

References

Addor, F., and A. Grazioli. 2002. Geographical indications beyond wines and spirits. *The Journal of World Intellectual Property 5* (6): 865–897.

Anania, G., and R. Nisticò. 2004. Public regulation as a substitute for trust in quality food markets: What if the trust substitute cannot be fully trusted? *Journal of Institutional and Theoretical Economics 160*: 681–701.

Anson, J. 2010. "Cronyist" CIVB to be sued by breakaway group. *Decanter*, December 10.

———. 2013. Montlouis-sur-Loire cuts itself loose from InterLoire. *Decanter*, January 9.

Ashenfelter, O., S. Ciccarella, and H.J. Shatz. 2007. French wine and the US boycott of 2003: Does politics really affect commerce? *Journal of Wine Economics 2* (01): 55–74.

Atkin, T., and R. Johnson. 2010. Appellation as an indicator of quality. *International Journal of Wine Business Research 22* (1): 42–61.

Auriol, E., and S.G. Schilizzi. 2003. *Quality signaling through certification: Theory and an application to agricultural seed markets*. IDEI Working Paper, 165. Toulouse: Institut d'Economie Industrielle (IDEI).

Banks, G., and J. Overton. 2010. Old world, new world, third world? Reconceptualising the worlds of wine. *Journal of Wine Research 21* (1): 57–75.

Barham, E. 2003. Translating terroir: The global challenge of French AOC labeling. *Journal of Rural Studies 19* (1): 127–138.

Batt, P.J., and A. Dean. 2000. Factors influencing the consumer's decision. *Australian & New Zealand Wine Industry Journal 15* (4): S34–S41.

Belletti, G. 2000. Origin labelled products, reputation and heterogeneity of firms. *Actes et Communications: Institut National de la Recherche Agronomique. Economie et Sociologie Rurales 17* (1): 239–259.

Blanchy, G. 2010. La construction des vins argentins à travers l'affichage. *Sciences de la Société 80*: 60–75.

Bramley, C., E. Biénabe, and J. Kirsten. 2009. The economics of geographical indications: Towards a conceptual framework for geographical indication research in developing countries. *The Economics of Intellectual Property,* 109–141. Available at http://www.wipo.int/export/sites/www/ip-development/en/economics/pdf/wo_1012_e.pdf

Broude, T. 2005. Taking trade and culture seriously: Geographical indications and cultural protection in WTO. *University of Pennsylvania Journal of International Law* 26: 623.

Bruwer, J., and M. House. 2003. Has the era of regional branding arrived for the Australian wine industry? Some perspectives. *The Australian & New Zealand Grapegrower & Winemaker*, December 1.

Bureau, J.C., and E. Valceschini. 2003. European food-labeling policy: Successes and limitations. *Journal of Food Distribution Research 34* (3): 70–76.

Cardinale, S., B. Nguyen, and T.C. Melewar. 2016. Place-based brand experience, place attachment and loyalty. *Marketing Intelligence & Planning 34* (3): 302–317.

Castriota, S., and M. Delmastro. 2011. *Inside the black box of collective reputation (No. 89/2011)*. Perugia: Università di Perugia, Dipartimento Economia.

———. 2012. Seller reputation: Individual, collective, and institutional factors. *Journal of Wine Economics 7* (01): 49–69.

———. 2014. The economics of collective reputation: Evidence from the wine industry. *American Journal of Agricultural Economics 97* (2): 469–489. https://doi.org/10.1093/ajae/aau107.

Charters, S., and N. Spielmann. 2014. Characteristics of strong territorial brands: The case of champagne. *Journal of Business Research 67* (7): 1461–1467.

Choi, C.J., S.H. Lee, and D. Oh. 1995. The strategy of grouping and reputation linkage in clubs and multi-product firms. *European Journal of Political Economy 11* (3): 521–533.

Cuellar, S.S., D. Karnowsky, and F. Acosta. 2009. The *Sideways* effect: A test for changes in the demand for merlot and pinot noir wines. *Journal of Wine Economics 4* (02): 219–232.

Defrancesco, E., J.E. Orrego, and A. Gennari. 2012. Would 'New World' wines benefit from protected geographical indications in international markets? The case of Argentinean Malbec. *Wine Economics and Policy 1* (1): 63–72.

Delmastro, M. 2005. An investigation into the quality of wine: Evidence from Piedmont. *Journal of Wine Research 16* (1): 1–17.

Doward, J. 2005. French bitter over wine study. *The Guardian*, March 20.

Dubois, P., and C. Nauges. 2010. Identifying the effect of unobserved quality and expert reviews in the pricing of experience goods: Empirical application on Bordeaux wine. *International Journal of Industrial Organization 28* (3): 205–212.

Easingwood, C., L. Lockshin, and T. Spawton. 2011. The drivers of wine regionality. *Journal of Wine Research 22* (1): 19–33.

Edwards, F. 1989. The marketing of wine from small wineries: Managing the intangibles. *International Journal of Wine Marketing 1* (1): 14–17.

Elliott, G.R., and R.C. Cameron. 1994. Consumer perception of product quality and the country-of-origin effect. *Journal of International Marketing 2* (2): 49–62.

Fombrun, C., and M. Shanley. 1990. What's in a name? Reputation building and corporate strategy. *Academy of Management Journal 33* (2): 233–258.

Gergaud, O., F. Livat, B. Rickard, and F. Warzynski. 2017. Evaluating the net benefits of collective reputation: The case of Bordeaux wine. *Food Policy 71*: 8–16.

Holmberg, L. 2010. Wine fraud. *International Journal of Wine Research 2010* (2): 105–113.

Hong, S.T., and R.S. Wyer. 1989. Effects of country-of-origin and product-attribute information on product evaluation: An information processing perspective. *Journal of Consumer Research 16* (2): 175–187.

Huber, J., and J. McCann. 1982. The impact of inferential beliefs on product evaluations. *Journal of Marketing Research* 19: 324–333.

Jacquet, O. 2009. *Un siècle de construction du vignoble bourguignon: Les organisations vitivinicoles de 1884 aux AOC*. Dijon: EUD, Collection Sociétés.

Keushguerian, V., and I. Ghaplanyan 2015. Carving out a new market niche: Historic world of wines. *BIO Web of Conferences, 5,* 03002.

Landon, S., and C.E. Smith. 1997. The use of quality and reputation indicators by consumers: The case of Bordeaux wine. *Journal of Consumer Policy 20* (3): 289–323.

Livat, F. 2007. Mesure des interactions de prix: Une analyse des modalités de substitution parmi sept vins de Bordeaux. *Economie & Prévision 4*: 127–145.

Livat, F., J. Alston, and J.-M. Cardebat. forthcoming. Do denominations of origin provide useful quality signals? The case of Bordeaux wines. *Economic Modelling.* https://doi.org/10.1016/j.econmod.2018.06.003.

Lockshin, L., M. Rasmussen, and F. Cleary. 2000. The nature and roles of a wine brand. *Australian & New Zealand Wine Industry Journal 15* (4): S17–S24.

Lockshin, L., W. Jarvis, F. d'Hauteville, and J.P. Perrouty. 2006. Using simulations from discrete choice experiments to measure consumer sensitivity to brand, region, price, and awards in wine choice. *Food Quality and Preference 17* (3): 166–178.

Maheswaran, D. 1994. Country of origin as a stereotype: Effects of consumer expertise and attribute strength on product evaluations. *Journal of Consumer Research 21* (2): 354–365.

Marette, S. 2005. *The collective-quality promotion in the agribusiness sector: An overview*. Ames: Center for Agricultural and Rural Development, Iowa State University.

Marie-Vivien, D. 2010. The role of the state in the protection of geographical indications: From disengagement in France/Europe to significant involvement in India. *The Journal of World Intellectual Property 13* (2): 121–147.

Meloni, G., and J. Swinnen. 2013. The political economy of European wine regulations. *Journal of Wine Economics 8* (3): 244–284.

Menapace, L., and G. Moschini. 2011. Quality certification by geographical indications, trademarks and firm reputation. *European Review of Agricultural Economics 39* (4): 539–566.

Mora, P. 2016. *Wine positioning: A handbook with 30 case studies of wine brands and wine regions in the world*. Cham: Springer.

Moschini, G., L. Menapace, and D. Pick. 2008. Geographical indications and the competitive provision of quality in agricultural markets. *American Journal of Agricultural Economics 90* (3): 794–812.

Moulard, J., B.J. Babin, and M. Griffin. 2015. How aspects of a wine's place affect consumers' authenticity perceptions and purchase intentions: The role of country of origin and technical terroir. *International Journal of Wine Business Research 27* (1): 61–78.

Mount, I. 2012. *The vineyard at the end of the world: Maverick winemakers and the rebirth of Malbec*. New York: W. W. Norton & Company.

Mueller, S., L. Lockshin, Y. Saltman, and J. Blanford. 2010. Message on a bottle: The relative influence of wine back label information on wine choice. *Food Quality and Preference 21* (1): 22–32.

Nourrisson, D. 2013. *Le buveur du XIXe siècle*. Paris: Albin Michel.

Orth, U.R., and P. Krška. 2001. Quality signals in wine marketing: The role of exhibition awards. *The International Food and Agribusiness Management Review 4* (4): 385–397.

Pont, P.C.M., and H. Thomas. 2011. The sociotechnical alliance of Argentine quality wine: How Mendoza's viticulture functions between the local and the global. *Science, Technology & Human Values 37* (6): 627–652.

Profeta, A., R. Balling, V. Schoene, and A. Wirsig. 2010. Protected geographical indications and designations of origin: An overview of the status quo and the development of the use of regulation (EC) 510/06 in Europe, with special consideration of the German situation. *Journal of International Food & Agribusiness Marketing 22* (1–2): 179–198.

Rangnekar, D. 2004. *The socio-economics of geographical indications*. UNCTAD-ICTSD Project on IPRs and Sustainable Development, Issue Paper, 8.

Rasmussen, M., and L. Lockshin. 1999. Wine choice behaviour: The effect of regional branding. *International Journal of Wine Marketing 11* (1): 36–46.

Rickard, B.J., J.J. McCluskey, and R.W. Patterson. 2015. Reputation tapping. *European Review of Agricultural Economics 42* (4): 675–701.

Roberto, M.A. 2011. The changing structure of the global wine industry. *International Business & Economics Research Journal (IBER) 2* (9): 1–14.

Samiee, S. 1994. Customer evaluation of products in a global market. *Journal of International Business Studies 25* (3): 579–604.

Schamel, G. 2006. Geography versus brands in a global wine market. *Agribusiness 22* (3): 363–374.

———. 2009. Dynamic analysis of brand and regional reputation: The case of wine. *Journal of Wine Economics 4* (01): 62–80.

Schamel, G., and K. Anderson. 2003. Wine quality and varietal, regional and winery reputation: Hedonic prices for Australia and New Zealand. *Economic Record 79* (246): 357–369.

Simpson, J. 2005. Cooperation and conflicts: Institutional innovation in France's wine markets, 1870–1911. *Business History Review 79* (03): 527–558.

———. 2011a. *Creating wine: The emergence of a world industry, 1840–1914*. Princeton: Princeton University Press.

———. 2011b. Factor endowments, markets and vertical integration. The development of commercial wine production in Argentina, Australia and California, c1870–1914. *Revista de Historia Económica/Journal of Iberian and Latin American Economic History (Second Series) 29* (01): 39–66.

Spawton, T. 1986. Understanding wine purchasing: Knowing how the wine buyer behaves can increase sales. *The Australian and New Zealand Wine Industry Journal 1* (2): 54–57.

Stanziani, A. 2004. Wine reputation and quality controls: The origin of the AOCs in 19th century France. *European Journal of Law and Economics 18* (2): 149–167.

Stasi, A., G. Nardone, R. Viscecchia, and A. Seccia. 2011. Italian wine demand and differentiation effect of geographical indications. *International Journal of Wine Business Research 23* (1): 49–61.

Teil, G. 2010. The French wine "appellations d'origine contrôlée" and the virtues of suspicion. *The Journal of World Intellectual Property 13* (2): 253–274.

Tirole, J. 1996. A theory of collective reputations (with applications to the persistence of corruption and to firm quality). *The Review of Economic Studies 63* (1): 1–22.

Townsend, C.G., and J.P. Tiefenbacher. 2011. Spatial change in South American viticulture: Static factors and dynamic processes in past, present, and future Chilean and Argentinean land use patterns and varietal choices. In *Proceedings—International Geographical Union 2011 Regional Geography Conference*, Santiago, Chile.

Van Ittersum, K., M.J. Candel, and M.T. Meulenberg. 2003. The influence of the image of a product's region of origin on product evaluation. *Journal of Business Research 56* (3): 215–226.

Verlegh, P.W., and J.B.E. Steenkamp. 1999. A review and meta-analysis of country-of-origin research. *Journal of Economic Psychology 20* (5): 521–546.

Viot, C., and J. Passebois-Ducros. 2010. Wine brands or branded wines? The specificity of the French market in terms of the brand. *International Journal of Wine Business Research 22* (4): 406–422.

Vogel, D. 1995. *Trading up: Consumer and environmental regulation in a global economy*. Cambridge, MA: Harvard University Press.

Winfree, J.A., and J.J. McCluskey. 2005. Collective reputation and quality. *American Journal of Agricultural Economics 87* (1): 206–213.

Young, A. 1794. *Travels during the years 1787, 1788 and 1789, undertaken more particularly with a view of ascertaining the cultivation, wealth, resources, and national prosperity, of the Kingdom of France*. Vol. 2. Bury St. Edmunds: W. Richardson.

Yuan, J., A.M. Morrison, S. Linton, R. Feng, and S.M. Jeon. 2004. Marketing small wineries: An exploratory approach to website evaluation. *Tourism Recreation Research 29* (3): 15–25.

Yue, C., S. Marette, and J.C. Beghin. 2013. How to promote quality perception: Brand advertising or geographical indication? *Non-tariff measures with market imperfections: Trade and welfare implications 12*: 73.