

# Turning wine into gold:

## How premium winemakers overcome the quality-price paradox

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*Some wine drinkers spend a small fortune on a single bottle of wine. What appears to be justified by the product quality is called into question by academic research ascertaining that price and wine quality appear to be of rather loose connection. Hence, the research question arises how premium winemakers can sell their wines at a price premium and thereby sustain their business success. Neo-classical price formation has established that a wine maker's reputation is the key driver of wine prices. However, neo-classical price formation theory does not further expand on this phenomenon. Hence, this study will utilize complementary socio-economic approaches to price formation to resolve the question on how winemakers construct their reputation. The abductive nature of this study will leverage semi-structured interviews with 20 renowned premium winemakers. This study reveals that reputation is indeed a key driver of a winemaker's ability to charge premium prices. A winemaker's reputation appears to be based on the quality of the wines. Winemakers also influence so-called reputation moderators to build up their reputation which influence the link of the quality of their wines and their reputation. This study shows that especially economic and social capital are key resources in these reputation-building activities.*

**Key words:** price formation, reputation management, formation of consumer preferences, social distinction, wine

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# Glossary

Due to the in part technical nature of the study the reader is kindly advised to consult the glossary. Terms listed in the glossary will be underlined in the text when they first appear.

Term	Definition
Cabernet Franc	A red grape variety (Priewe, 2005).
Closed quality circle	A winemakers' association which winemakers can only join upon invitation. This invitation is granted by the already admitted members to winemakers that conform to the quality standards of the quality circle (Priewe, 2005). The VDP, the klitzkleine Ring, the Bernkastler Ring, the 13 Breisgauer Winzers are examples for German-based closed quality circles are.
Fermentation	The vinification process in which yeast bacteria transform the sugar of the grapes into alcohol. If wines are spontaneously fermented no artificially grown yeast bacteria are added. The fermentation process is facilitated by the yeast bacteria that the grapes bring along from the vineyards (Priewe, 2005).
Fully fermented wines	The fermentation process of fully fermented wines last so long that all sugar of the grapes is transformed into alcohol. Hence, these wines possess little to no residual sugar (Priewe, 2005).
Grape growing	The process in which winemakers produce grapes in the vineyards using certain vineyard practices (Goncharuk, 2017).
Merlot	A red grape variety (Priewe, 2005).
Must	The harvested grapes are separated from the grape stalks and crushed. The resulting juice which contains the grapes is called must (Priewe, 2005).
New Wine World	All countries in which wine is produced that not belong not to the old wine world (Priewe, 2005).
Old Wine World	All countries from which winemaking first originated. This commonly refers to the European wine growing nations (Priewe, 2005).
Pinot noir	A red grape variety (Priewe, 2005).
Reputation	Referring to the quality of being known and recognized (Bourdieu, 1996).
Residual sugar	The sugar that the wines contains after all vinification steps including the fermentation (Priewe, 2005).

Term	Definition
Riesling	A white grape variety (Priewe, 2005).
Syrah	A red grape variety (Priewe, 2005).
Terroir	The unique properties of a vineyard (Brostrom & Brostrom, 2009; Priewe, 2005).
Vineyard practices	All techniques that a winemaker applies to produce grapes of a certain quality (Priewe, 2005).
Vinification	The process in which winemakers transform the grapes into wine. First, a <u>must</u> is produced from the grapes. The fermentation process transforms this must into wine (Goncharuk, 2017; Priewe, 2005).
Winemaker/Winery	A business person, respectively a business, who is involved in grape growing, vinification, distribution and retailing (own definition).

# 1 Introduction

*This introductory chapter discusses the research background and problem (1.1), the expected contributions and delimitations (1.2) as well as the thesis disposition (1.3).*

## 1.1 Research background and problem

In 2015, German winemaker Egon Müller auctioned off one single bottle of sweet Riesling wine for €14.566 (Eckert, 2015). In contrast, 60% of all German wine bottles are sold for 4€ or less (Hoffmann, 2014). Without a doubt, wine is characterized by a price range which sets it apart from many other product categories. For other products a certain variance in price appears logical. Who would question that the SUV VW Tiguan costs three-times of what the compact car VW Polo costs, if one merely considers the huge difference in size of the two different cars?<sup>1</sup> However, when it comes to wines one has to admit that only chemical nuances differentiate a high-priced wine from a low-priced one. So, what justifies the price of wine?

The wine industry and its various actors argue that wines are differentiated by their sensory qualities. To describe these quality differences wine critics use a language as picturesque and metaphorical that readers of wine reviews could mistake it for the prose of Shakespeare or Tolstoy (Puckette, 2013). Wine critics also commonly make use of numerical scales from 0 of 100 to signify with a scientific authenticity which wine is of sensory quality and which one is not (Echsenberger, 2015).

Hence, one might assume that these sensory quality differences lead to the enormous price range of wines. However, existing wine consumer research contradicts this assumption. It is well established that wine consumers, especially non-experts, are barely able to distinguish a high-priced from a low-priced wine based on its sensory qualities (Almenberg & Dreber, 2011; Goldstein et al., 2008; Prilaid, Feinberg, Carter, & Ross, 2009). Considering the enormous price range of wines these findings give rise to what thereafter shall be called the wine quality-price paradox. It becomes apparent that premium winemakers cannot (only) rely on a sensory superior wine to be able to charge premium prices.

Neo-classical economics suggests that wine quality is not the only factor that contributes to wine prices. It asserts that reputation is a key variable to be understood in order to shed light on the identified wine quality-price paradox (Combris, Lecocq, & Visser, 1997). While insightful the current research is marked by two fundamental gaps: firstly, so far holistic research that fosters a deeper understanding of how winemakers gain reputation is missing. Secondly, the concept of reputation is commonly linked to product quality. However, research is lacking on the question of what constitutes wine quality and how preferences for certain wine qualities arise. This is why, this research will turn towards socio-economic theory that appears to provide an instructive theoretical lens. The German wine market offers an interesting research context to foster this understanding as it has been marked by other researchers as under-researched and is characterized by a relatively high price-sensitivity (Dressler, 2017; Hoffmann, 2014).

## 1.2 Expected contributions and delimitations

Hence, this paper sets out to answer the following research question:

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<sup>1</sup> Prices retrieved on 13.05.2018 from <https://www.carsguide.com.au/volkswagen/2018>



By answering this question this research aims to make multiple contributions. Firstly, a thorough understanding of what constitutes a winemaker's reputation and how winemakers build up their reputation shall be established. Secondly, as reputation has been theorized to be linked to quality this thesis shall also establish an understanding of this concept. These theoretical contributions will provide practical contributions for winemakers as well as wine consumers.

While the topic of price formation in the wine industry is limitless, this thesis has set itself clear delimitations. Firstly, this thesis will focus solely on the German wine market. Secondly, while price mechanisms are driven by choices of multiple market actors this study will only focus on winemakers. This thesis has thus deliberately decided to exclude the perspective of other market actors like wine consumers or wine critics to enable a more in-depth account of the winemakers' perspective.

## 1.3 Thesis disposition

This thesis will be organized as follows:

2	Literature review	Outlining key findings from neo-classical price formation theory as well as research on winery reputation management
3	Theory review	Presenting socio-economic approaches to price formation apt to fill the identified research gap
4	Theoretical model	Constructing a guiding theoretical lens from the theories presented in the theory review
5	Methodology	Highlighting methodological considerations of this study
6	Empirical findings	Presenting data from 20 + 4 semi-structured interviews with premium winemakers
7	Analysis	Analyzing the presented data through the constructed theoretical lens
8	Conclusion	Readdressing the initial research questions with the collected findings
9	Discussion	Outlining this study's contributions, limitations, as well as further avenues for research

## 2 Literature review

*The following literature review will first provide an overview of the wine industry (2.1) before highlighting existing findings on the price-quality paradox of neo-classical price formation theory (2.2) and winery reputation management (2.3).*

### 2.1 The wine industry

As outlined this study will focus on the German wine industry and will subsequently summarize some of its key characteristics in terms of consumption, production and overall wine value chain.

#### 2.1.1 Wine consumption in Germany

German consumers drink about 20 million hectoliters of wine and rank thereby fourth worldwide in total consumption. This amounts to 8.3% of the global wine consumption (DWI, 2016). Put differently, each German consumes about 24.4 liters per person which equates to roughly half of what an average French or Italian person consumes (DWI, 2016; Koch, 2012). Wine consumption levels remain stable in Germany in contrast to other developed countries (Dressler, 2017)<sup>2</sup>. Germany is the biggest importer of wine (Dressler, 2017).

The usual categorization of the German wine market into six price ranges (Hoffmann, 2008) has been simplified into three brackets for the purpose of this study: low-, mid-, and high-priced. The latter two categories shall also refer to premium wine (Table 1).

<i>Fine-grained categorization</i>	<i>Simplified categorization</i>	<i>Price range (€)/per liter</i>
Generic/Commodity	Low-priced	<3€
Basic		3-5€
Premium	Mid-priced (Premium)	5-10€
Super-premium		10-25€
Ultra-premium	High-priced (Premium)	25€-50€
Iconic		>50€

*Table 1 Price segments of the German wine market (Hoffmann, 2008; own categorization)*

German wine consumers in comparison to their international peers are relatively price sensitive. In the USA only 2-3% of wines is low-priced, whereas in Germany 26% of all wines sold are. Hoffmann (2014) points out that price levels also depend on the distribution channel (Figure 1).

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<sup>2</sup> Statistics include consumption of sparkling and still wine.

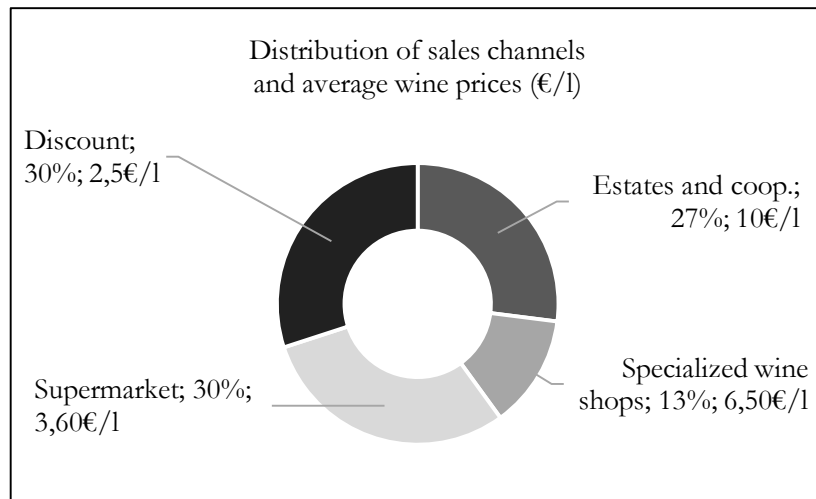


Figure 1 Distribution of sales channels and average wine prices (Hoffmann, 2014; own illustration)

## 2.1.2 Wine production in Germany

42.7% of wines consumed in Germany is also produced in Germany. 7.554 million hectares (ha) of land are used worldwide for viniculture. Germany ranks with its 102.000 hectares in 14<sup>th</sup> place. German winemakers produce 9.3 million hl of wine of which about 1.2 million hl are exported (DWI, 2016).

In Germany 18.700 German winemakers operate predominately small estates (DWI, 2016). Even though a consolidation process has begun compared to other countries Germany's wine industry is still highly fragmented (Harrington & Ottenbacher, 2008) (Figure 2).

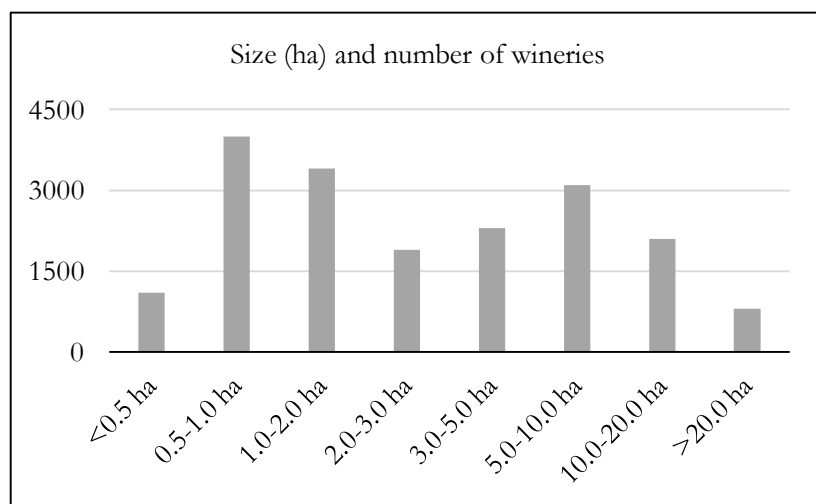


Figure 2 Size (ha) and number of wineries in Germany (DWI, 2016; own illustration)

Germany is divided into 13 wine growing regions (DWI, 2016) (Figure 3). As wine is an agricultural product the wine growing regions differ in various aspects: distribution of grape varieties, size of estates, price levels,... (Hutter, 2016; Priewe, 2005)

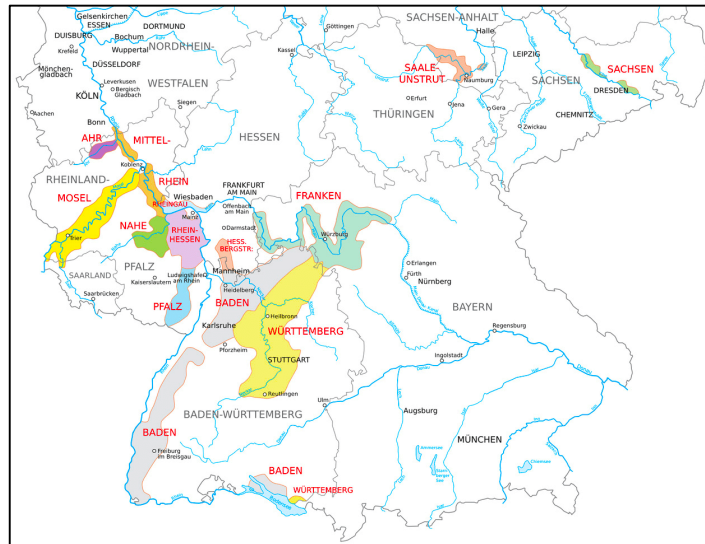


Figure 3 Map of 13 wine regions in Germany (Hoffmann Verlag, 2017)

Despite the recent successes in exporting wines, a lack of, or some argue even unfavorable reputation still impedes German winemakers (Knöferl, 2013). Some claim that the German wine industry is still recovering from the mass-production of low quality sweet white wines (called *Liebfraumilch*) that were exported massively till the 1990s culminating in a food scandal in the Austrian and German wine industry in 1985 as well as a change in taste preferences towards drier wines (Vicampo, 2012).

### 2.1.3 Wine value chain

Goncharuk (2017) outlines that the wine value chain can be summarized into four different steps: grape growing, vinification, distribution and retailing (Figure 4).

1. Based on the unique properties of each vineyard “grape growers” can produce grapes of a certain level of quality (Goncharuk, 2017). Terroir refers to the unique characteristics of each vineyard including its natural properties such as soil, climate and topological, as well as humanly devised, properties such as the selection of grape varieties (Brostrom & Brostrom, 2009).
2. During vinification the “wine producer” creates wine out of the produced grapes. “Wine producers” can either be winemakers, cooperatives or private wineries. While winemakers also buy the grapes from grape growers, cooperatives buy their grapes from small scale “grape growers” who are members of the cooperative. Lastly, private wineries are businesses that incorporate grape growing and wine producing activities (Goncharuk, 2017).
3. Distribution refers to the transport-related activities (Goncharuk, 2017).
4. Lastly, retailers, such as supermarkets or specialized wine shops, link distributors and wine consumers. However, winemakers also sell their wines directly on premise circumventing third-party distributors and retailers (Goncharuk, 2017).

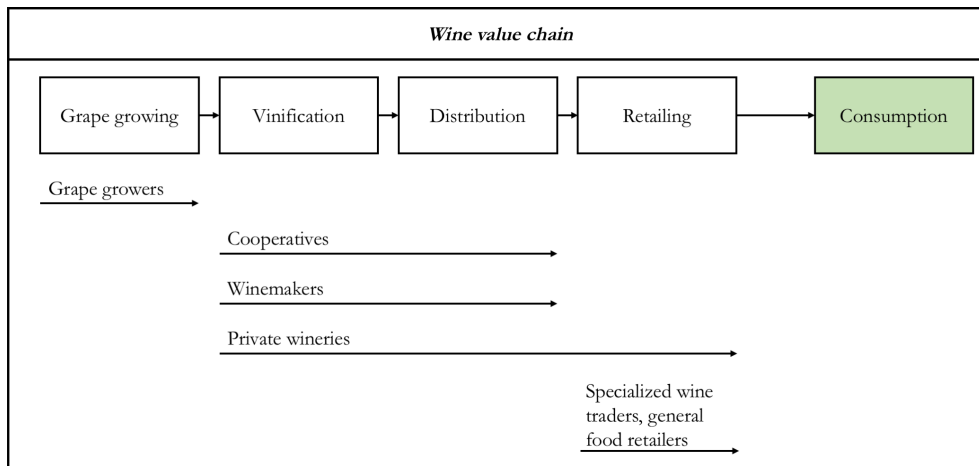


Figure 4 Wine value chain: activities and main actors (Goncharuk, 2017; own illustration)

In the following, the terms winemaker and winery shall be used interchangeably, both referring to a business person or a business, which are involved in grape growing, vinification, distribution and retailing.

## 2.2 Neo-classical price formation models

After having given an overview of the German wine industry this thesis now summarizes findings from neo-classical research on price formation processes.

### 2.2.1 Rational actors, demand and supply

Neoclassical price theory postulates that faced with scarce resources rational consumers and producers compare marginal benefits with marginal costs of possible choices based on their preferences. Demand and supply arises from the aggregation of these individual marginal benefit calculations. Ultimately, the market price operates as a market-clearing mechanism matching supply and demand (Mankiw, 2014).

Consequently, a high market price of a certain good signals that this good is in high demand relatively to its small supply. Indeed, research supports the basic demand-supply-price relationship for the market for premium wines (Cevik & Saadi Sedik, 2014).

However, in its most basic version this price formation model assumes markets to be of a competitive nature requiring offered goods to be homogeneous, i.e. substitutable (Mankiw, 2014). However, wine is not a homogeneous good. Would a consumer substitute a bottle of 2012 dry Cabernet from Mondavi (USA) with a bottle from a 1992 sweet Riesling from Robert Weil (Germany) as one would substitute salt from brand A with salt from brand B?

### 2.2.2 Hedonic price models

Compared to more commodity-like products a wine combines multiple product characteristics (i.e. appellation, vintage, grape, etc.) into one product. Based on theoretical considerations by Lancaster (1966) and Rosen (1974) hedonic price models are supposed to reveal how much each product's characteristics contributes to the total composite good's price.

### 2.2.3 Findings from hedonic price models

Hedonic pricing models have identified three criteria that contribute to a wine's price: its sensory qualities, its objective characteristics (i.e. product attributes that appear on the label such as winery, vintage,...) and its reputation (in terms of wine, winery and region). Sensory qualities contribute to wine prices even though only to a limited extent (Combris et al., 1997). Objective characteristics and reputation contribute to consumer's willingness to pay at a larger extent (Benfratello, Piacenza, & Sacchetto, 2009; Oczkowski & Doucouliagos, 2015).

#### 2.2.3.1 Interlude: price and quality

At first glance the findings from hedonic pricing models contradict findings on consumer wine quality ratings. If consumers fail to identify expensive wines, how can sensory qualities contribute to a consumer's willingness to pay for a bottle of wine? Two findings can resolve this contradiction. Firstly, participants in studies on quality assessments on wine are often laymen (i.e. non-experts) while hedonic pricing models often use expert ratings as input for their sensory quality variables. Secondly, while consumers often fail to reliably distinguish between a cheap and an expensive wine, expensive wines could still have a better sensory quality but at a statistically non-significant level in relation to the price difference. From this discussion, this thesis derives one of its fundamental assumptions:

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*More expensive wines have an objectively better sensory quality. However, non-experts find it difficult to detect differences. Moreover, these objective sensory differences do not fully explain the differences in prices.*

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To illustrate this theorized relationship between objective quality and price a fictitious example from the fashion industry is instructive: a men's suit from H&M is of objectively lower quality than a suit from Dior, which might not be detectable by consumers inexperienced with purchasing suits. Moreover, the relative price ratio (2.000 € vs. 70€, respectively 29:1) is disproportionate to the relative quality ratio (Suit life period: Dior 2 years vs. H&M 1). Also, wine quality has subjective as well as objective dimensions that wine chemistry research has examined over the last decades (Jackson, 2008).<sup>3</sup>

#### 2.2.3.2 Limits of hedonic price models

Returning to the findings from hedonic price models one might assume that they resolve the knowledge gap left. However, applying hedonic price models to wine is theoretically contradictory to the value creation of winemakers (Karpik, 2010). The value of a wine is more than the sum of its individual units. Its value arises (also) from the *combination* of its individual characteristics.<sup>4</sup> These theoretical considerations aside, if reputation does contribute to a wine's value, neo-classical price theory leaves us with an obvious question: how does a winemaker construct its reputation?

Moreover, neo-classical price formation theory assumes that consumer preferences (in the short run) are fixed and exogenous. Neo-classical price formation theory takes tastes as a given. The neo-classical economists Stigler and Becker (1977) famously claim "De gustibus non est disputandum". This assumption

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<sup>3</sup> Wine chemistry identifies several chemical constituents that can result in pleasant or unpleasant taste patterns. For example, butyric acid is often the root cause of an odor similar reminiscent of rancid butter (Jackson, 2008).

<sup>4</sup> In concrete terms, while a bottle of Riesling (white grape variety) from Rheingau (wine region in Germany famous for its Riesling wines) may be a valuable combination, a bottle of Riesling from Burgundy (wine region in Germany famous for its red wines) will most likely less valuable even though Burgundy is a more renowned wine region than Rheingau.

enables hedonic price models to determine what a consumer would be willing to pay for a wine if one of its characteristics *ceteris paribus* would change.

## 2.3 Existing research on winery reputation management

As hedonic price models draw attentions towards reputation as a key variable in wine price formation processes existing research on reputation management of wineries will be summarized. Reputation is conceptualized as consumers' pre-purchase expectations about a company's products and services (Costanigro, McCluskey, & Goemans, 2010). Based on theory from information economics (Akerlof, 1970) reputation is argued to be the more influential on consumer behavior the more quality – as in the case for wine – is uncertain (Benfratello et al., 2009). Benfratello et al. (2009) claim that wineries can leverage their reputation as signals of wine quality and thereby impact consumers' willingness to pay.

Tirole (1996) highlights that collective and individual reputation constitute the overall a reputation a firm enjoys. A firm's collective reputation arises from characteristics and activities of the group with which it affiliates itself. For wines collective reputation (i.e. the reputation of the wine region) is of importance due to its agricultural nature (Ray Chaudhury, A. Albinsson, David Shows, & Moench, 2014). In contrast, the individual reputation is solely based on the firm's individual activities. Wine critics are recognized by consumers as competent judges of wine quality and thus influence a winery's individual reputation (Cardebat, Figuet, & Paroissien, 2014; Castriota & Delmastro, 2012; Karpik, 2010).

In line with Dressler (2016) this thesis argues that much of the research examines the effects of reputation on consumer behavior. No systematic research could be identified about how winemakers construct their reputation.

## 2.4 Conclusion

Germany has a strong and stable domestic wine market. Wine consumers are relatively price sensitive and favor more renowned wines imported from abroad. In addition, the German wine industry remains fragmented into many small wine estates. Grape growers, winemakers, cooperatives, private winemakers and specialized and general distributors and retailers perform collaboratively the four key activities of the wine value chain: grape growing, wine production, distribution and retailing.

Concluding the discussions about neo-classical price formation theory this thesis asserts in line with Beckert and Aspers (2011) that the cited models are apt enough to explain how consumers react to changes in prices, income and product characteristics as long as consumer preferences for the characteristics of the composite goods are taken as a given. Research highlights various wine characteristics explaining the prices of wines: sensory, objective and reputational characteristics. However, neoclassical price formation theory remains silent on the formation and change of those preferences and more specifically on the formation of reputation.

## 3 Theory review

*The theory review will first explain what theories appear relevant for the research question (3.1), before discussing the two central theories of this thesis: the theory on cultural production (3.2) and the status-based model of market competition (3.3). This chapter will discuss the cumulative research need in its final section (3.4).*

### 3.1 Relevant theories

In light of the identified knowledge gaps, Beckert and Aspers (2011) draw attention towards sociological approaches which according to them are apt to shed light on the dynamics of valuation of goods in an economy. Beckert (2011) summarizes that socio-economical perspectives on price formation examine how preferences and thereby prices represent outcomes of struggles originating from social and political forces. Hence, Bourdieu (2005) argues that “it is not prices that determine everything, but everything that determines prices.”

Hedonic price models show the importance of reputation in wine price formation processes. Hence, out of the various socio-economic price formation approaches offered, the theory of cultural production (Bourdieu, 1996) and the status-based model of competition (Podolny, 1993) appear to be relevant as they can foster a deeper understanding on this variable.

### 3.2 Bourdieu’s theory of cultural production

This thesis will turn towards Bourdieu’s (1996) theory of cultural production. With his theory Bourdieu aims at fostering “a very broad understanding of culture, in line with the tradition of classical sociology, [...] as well as expressive-aesthetic activities such as art, literature and music” (Hesmondhalgh, 2006, p. 212). So far only Beckert, Rössel and Schenk (2017) have applied the theory of cultural production to the wine industry. They highlight that winemakers can generally demand higher prices if they possess reputation as defined by the theory of cultural production. However, this research neglects the question of how winemakers actually acquire this kind of reputation.

To foster a holistic understanding of the theory of cultural production it shall first be established why this paper assumes that wine is a cultural good (i.e. art). Thereafter, Bourdieu’s general field theory in which his theory of cultural production is embedded in shall be explained. Lastly, his theory of cultural production will be outlined.

#### 3.2.1 Wine as an object of art

The quality-wine paradox of the wine markets gives rise to an intriguing proposition. The wine market is – at least partially – an art market. Similarities can be identified on a conceptual level: the value of an object of art does not arise from its material nature, nor its functional use. Art is an object of aesthetic appreciation (Webb, Schirato, & Danaher, 2002). Thus, purchasing a piece of contemporary art resembles buying a premium bottle of wine: the material quality of the product in question appears to be only vaguely related to its price. For example, in 1997, Sotheby’s auctioned off “Fountain”, a piece of contemporary art created by Michael Duchamp for \$1,762,500. One might be puzzled to find out that “Fountain” was in fact just a ceramic urinal with black paint (Martinique, 2016). In similar fashion, premium wine does not fulfill a functional but aesthetic purpose (Negrin, 2015). One rather buys a premium bottle of wine for its sensory (i.e. aesthetic) experience than its relaxing and intoxicating effect.



Due to the similarities of the market of premium wines with the market of artistic good this paper argues that the production of premium wines can be analyzed using a theoretical lens originally theorized for the art market.

### 3.2.2 Bourdieu's theory of practice

In essence, Bourdieu's theory of practice aims at exploring how social structures are produced and reproduced by describing how and why actors behave a certain way. While his initial conceptualizations focused on social classes, Bourdieu (2005) also shows the relevance of his theories for economic processes. Bourdieu's theory of practice is composed of three core concepts: field, habitus and capital (Bourdieu & Wacquant, 1992).

#### 3.2.2.1 Field

A field is a "network of objective relations between positions" (Bourdieu & Wacquant, 1992, p. 97). Each society is composed of multiple fields, such as the field of arts, literature, or the wine market. Actors within a field assume different positions within a field according to the type and level of capital they possess, thus creating the "objective relations between [different] positions".

A field reflects the struggle for capital that individual actors engage in using certain strategies (i.e. practices) (Bourdieu & Wacquant, 1992). Bourdieu's theory of capital (1986) argues that actors in a field accumulate different forms of capital over time. This accumulation results in the aforementioned actor's level and types of capital which determine their field position as dominant or dominated.

#### 3.2.2.2 Capital

Bourdieu (1977, p. 178) defines capital as "all the goods [...] that present themselves as rare and worthy of being sought after in a particular social formation." Bourdieu has used an ample number of different categorizations of capital forms (Fuchs-Heinritz & König, 2014). This thesis will use the categorization from his seminal article "The Forms of Capital" (Bourdieu, 1986) as it balances granularity and genericness enabling this study to apply Bourdieu's theory to a new field while generating new insights (Figure 5).

Bourdieu (1986) proposes that actors make use of four different forms of capital: economic, social, cultural and symbolic capital. Firstly, economic capital refers to tangible and intangible assets. Secondly, Bourdieu (1986) argues that actors can accumulate cultural capital. Cultural capital refers amongst others to accumulated skills and knowledge. Thirdly, Bourdieu (1986) theorizes social capital as one's personal network. Lastly, Bourdieu (1986) identifies symbolic capital as distinctions such as reputation, prestige, fame and honor.

Furthermore, different capital forms can be transformed into each other with economic capital being the most transformable form of capital (Bourdieu, 1986). Eventually, a field is not only a struggle for capital, but also a struggle concerning the hierarchy and exchange rates of the different forms of capital (Bourdieu & Wacquant, 1992).

#### 3.2.2.3 Habitus

The theory proposes that an actor's strategies originate from his habitus (Bourdieu & Wacquant, 1992). Bourdieu (1992, p. 13) defines habitus as a "set of historical relations 'deposited' within individual bodies in the form of mental and corporeal schemata of perception, appreciation, and action." As such, the habitus informs an actor's behavior similar to how an athlete's "sense of the game" shapes her or his moves on the a sport's field (Hurtado, 2010). An actor's habitus is shaped by the objective conditions of the field in which

an actor has been and is embedded (i.e. a process of socialization). Thereby the conditions under which an actor's habitus was shaped are reproduced. Hence, the habitus serves Bourdieu as the key concept to explain how a class is produced and reproduced.<sup>5</sup>

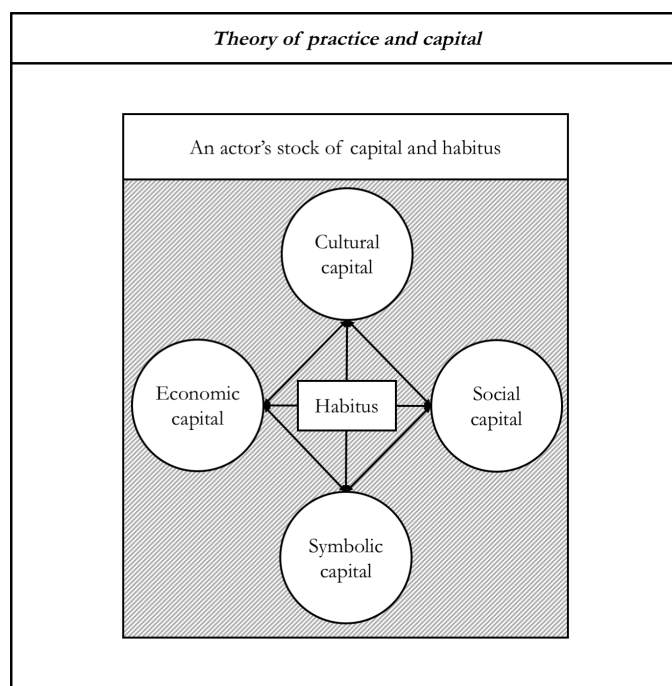


Figure 5 Theory of practice and capital (Bourdieu & Wacquant, 1992; own illustration)

### 3.2.3 Theory of cultural production

Bourdieu's (1996) theory of cultural production adds a layer of complexity to his general field theory. It outlines how fields of cultural production are structured into certain sub-fields and how actors within these fields behave: on the one hand the pole of large-scale cultural production, on the other hand the pole of restricted cultural production (Bourdieu, 1996). Despite the ideal-typical nature of this definition, Bourdieu (1996) claims that actors will face struggles as they combine the two poles of practices in their behavior as the two different poles pose different requirements and demands to the actors that pursue them.

#### 3.2.3.1 Subfield of large-scale cultural production

Actors of the field of large-scale cultural production, also called the heteronomous, pole aim for economic success (i.e. economic capital) for pre-established markets as they satisfy pre-established demands with pre-established forms. Hence, actors of the heteronomous pole target the general public with their products who can experience and consume those products without any sophisticated knowledge. Bourdieu argues that these actors are still producers of art in case they do not fully reveal their purely economic goals (Bourdieu, 1996).

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<sup>5</sup> Bourdieu however rejects to reduce the concept of habitus to the formula "structures determines habitus which determines practices which reproduces structures" (Bourdieu & Wacquant, 1992, p. 135) Bourdieu (1992, p. 133) proclaims that "habitus is not the fate that some people read into it". As an actor's habitus is shaped by her or his experiences it is not static.

### 3.2.3.2 Subfield of restricted cultural production

In contrast, at the autonomous pole actors engage in production for “art for the sake of art”. This pole is theorized to be free from market considerations. Its production does not target a present, but a (possible) future market (Bourdieu, 1996).

In this field, economic success is even seen as an artistic failure. Consequently, Bourdieu (1996) also refers this field “the economic world reversed”. Actors in this subfield instead aim for symbolic capital. In the field of cultural production, Bourdieu (1996) defines symbolic capital as being known and recognized. The accumulated symbolic capital can be converted back to economic capital. Hence, Bourdieu (1996, p. 142) argues that symbolic capital is “a kind of economic capital denied but recognized and hence legitimate – a veritable credit, and capable of assuring under certain condition and in the long term, ‘economic’ profits.” Economic profits can only be secured after a certain interposed time interval so that the illusion of the production of art for the sake of the art can be kept alive. Nevertheless, artists need a certain amount of economic capital to sustain their artistic production (Bourdieu, 1996).

The symbolic capital endows its possessor with the power to consecrate entities and thereby to give them value. In this subfield of artistic production also actors connected to the artists engage in the act of consecration. By engaging with other actors of the field of symbolic capital, such as critics, artists can become known and recognized, i.e. gain symbolic capital. Regarding the French premium wine market Karpik (2010) highlights the influence of wine critics, such as Robert Parker, on price formation processes.

Bourdieu (1996) hence concludes that art in its purest form is a product of symbolic and not material transformation. In that sense, the value of an object of art is connected to its production costs in terms of its symbolic production.

### 3.2.3.3 Cultural products as means of social distinction

How does Bourdieu’s theory of cultural production connect to his overarching theory of practice? Bourdieu (1984, p. 227) claims that “the work of art is the objectification of a relationship of distinction.” Art becomes a means of class distinction as the field of producers in its symbolic hierarchy is mirrored by the field of consumers in its structure of social classes. While goods from the field of large-scale production can be consumed by everyone, only consumers of higher social classes are endowed with the capital and habitus to purchase, consume and appreciate goods from the field of restricted production. Consequently, preferences for goods from the field of restricted cultural production arise as members of higher social classes want to signify and reproduce their status. Hence, art can be used to signify one’s social class and thereby reproduce it (Bourdieu, 1984).

The profit of distinction is theorized to be “proportionate to the rarity of the means required to appropriate them” (Bourdieu, 1984, p. 227). Hence, in line with Karpik’s argument (2010) art goods derive their value from their originality, uniqueness and authenticity.

Research highlights that Bourdieu’s theory of cultural production offers an extension of Veblen’s theory of conspicuous consumption (Trigg, 2001). Veblen (1899) postulates that preferences are shaped by the consumer’s position in the societal hierarchy and are not exogenous. Preferences (i.e. tastes) trickle down society as consumers from a certain class always try to imitate consumption behaviors of consumers from the next higher class. Based on this theory, a Veblen good is defined as a good whose demands increase as its price increases (Beckert & Aspers, 2011).

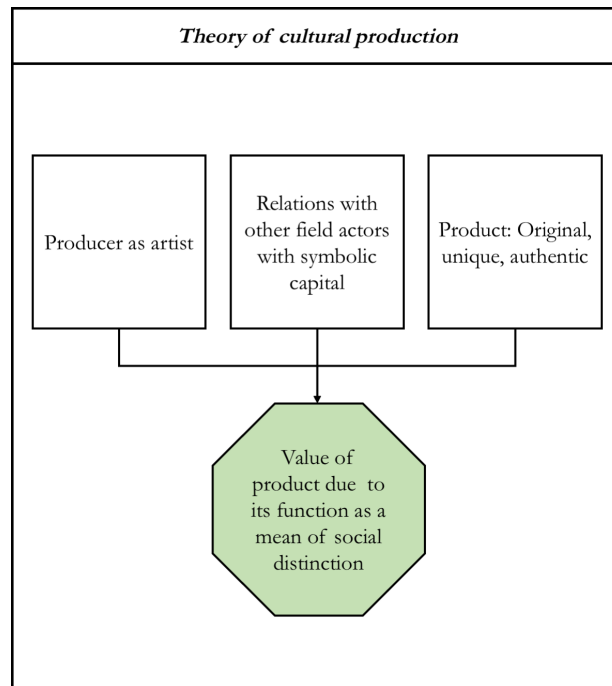


Figure 6 *Value creation in the field of restricted production (Bourdieu, 1996; own illustration)*

Nevertheless, the theory of cultural production remains vague on the effect of objective sensory qualities on price levels. This paper argues that as Bourdieu modelled his theory of cultural production on the art market where quality criteria can be radically uncertain the theory of cultural production is viable without taking objective quality criteria into account. However, in the case of wine, objective quality criteria are also of importance. Hence, this thesis turns to Podolny's (1993) status-based model of competition for further theoretical guidance.

### 3.3 Status-based model of competition

Podolny's (1993) status-based model of competition offers an additional perspective on the construction of a producer's reputation and its effects on prices. According to his model, the competition of firms is based on their relative status when product quality is uncertain. Status is defined here as the "producer's status in the market as the perceived quality of that producer's products in relation to the perceived quality of that producer's competitors' products" (Podolny, 1993, p. 830).

As a signal, status only has a loose connection to the product's actual quality due to four reasons. Firstly, there is a time lag between actual quality changes and changes in perception of qualities. Secondly, as information dissemination is of stochastic nature, not all quality changes result in changes of perceptions. Thirdly, market exchanges are embedded in networks of relations that influence exchanges. Podolny (1993) exemplifies that loyal customers of a producers whose products experience a drop in quality would most likely not change the producer (or only after considerable time) due to their longstanding relationship. In addition, by fostering relations with prominent buyers, third parties and other parties, producers can increase their status. Lastly, status is a second-order construct as it arises from perception which does not necessarily reflect the actual quality (Podolny, 1993).

A status order arises from the individual status endowments of the individual firms. The individual status position within the status order mediates the producer's access to certain market rewards. Consequently, higher status firms are able to sell a product of a certain objective quality at more revenues and at lower costs compared to a lower status firm. Podolny (1993) argues that a high-status producer can sell a good at

a given quality more often and/or more expensively than a low-status competitor since consumers prefer products from higher status firms.

The high status of a certain firm is in part also linked to the exclusivity of the relationship it fosters. This is why, despite the theorized cost and revenue advantage, the highest-status firms can never fully monopolize the market. This deviation from neo-classical theory explains why fashion companies create different fashion brands for different price ranges (Podolny, 1993).

Podolny's (1993) model of status-based competition holds close ties to other socio-economical network-based pricing theories. In his case study of the French lawyers' market, Karpik (2010) proposes that only producers themselves have the ability to assess the quality of the services offered in the market. In producer-network markets prices arise from these producer evaluations. Hence, Karpik's (2010) theory on producer networks can expand Podolny's (1993) theory of status-based competition by explaining how a status can arise from subjective quality assessments when quality is rather uncertain. Benjamin and Podolny (1999) find evidence for the status-based model of competition in the wine market. However, as they solely focus on objective quality indicators for reputation in their quantitative study, they do not incorporate reputational effects as conceptualized by Bourdieu's (1996) theory of cultural production.

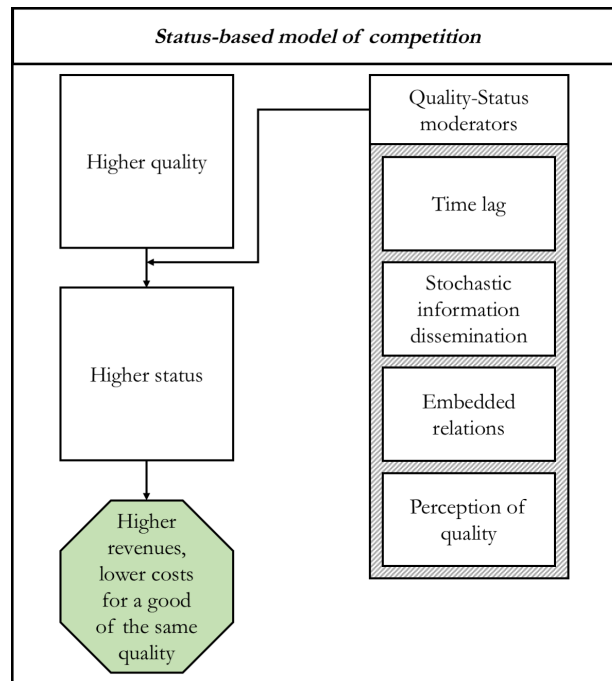


Figure 7 Status-based model of competition (Podolny, 1993; own illustration)

### 3.4 Research need

The literature review has highlighted that wine prices appear to be driven by reputation. While a winery's reputation has been theorized to be linked to quality of its wines, research has so far failed to establish a more thorough understanding of what constitutes a winemaker's reputation and how a winemaker manages to gain reputation. Moreover, existing literature has failed to establish how preferences for certain wines arise.

Building upon these findings, the theory review of socio-economic price formation models highlights two different approaches to price formation in the wine industry that both center around the construct of reputation. While each approach individually has found some empirical application, research incorporating

both approaches is still lacking. The combination of both approaches promises to be an insightful theoretical lens for this research. On the one hand, Podolny's approach (1993) offers a general model of how quality fosters reputation via certain quality-status moderators. However, Podolny's (1993) remains silent on the question of preferences. Here, Bourdieu's (1996) offers insights into how preferences arise from a subconscious desire of higher social classes to distinct themselves. Hence, this thesis contents that only the combination of the two theories can foster a holistic understanding of how winemakers are able to charge premium prices.

## 4 Theoretical model

*This chapter shall first construct a combined theoretical model (4.1) and then derive sub-ordinated research questions (4.2).*

### 4.1 Combining theories

The theoretical framework tries to combine two complementary theories, namely Bourdieu's (1996) theory of cultural production and Podolny's (1993) status-based model of competition, to explain how winemakers are able to charge premium prices.

Following Bourdieu's (1996) etymological definition, reputation shall be understood as being known and recognized. Beyond this etymological definition, theory provides us with two diverging conceptualizations of reputation (Figure 8, B). Firstly, while Bourdieu (1996) links reputation (i.e. symbolic capital) to an artist's dedication towards disinterested artistic production, Podolny (1993) theorizes reputation (i.e. status) as the perceived relative quality of a producer's goods. The winemaker's reputation in its quality and artistic nature is then theorized to enhance the value of her or his wines (Figure 8, A).

According to the status-based model, reputation arises loosely from a winemaker's perceived relative quality (thereafter quality-based reputation) (Podolny, 1993). A winery can increase its reputation by increasing the sensory quality of its wine. According to the theory of cultural production, winemakers can gain reputation if they operate their business for the sake of wine and not for commercial purposes (thereafter art-based reputation) (Bourdieu, 1996). Hence, this thesis expects their production not to be targeted at the mass market. Instead of producing wines that fit the popular taste and are thereby easy to drink, premium winemakers are expected to create wines that only wine drinkers with experience and knowledge will be able to understand and appreciate. Hence, by excluding the mass market from the consumption of their products, wine consumers of the upper classes can use premium wines as a form of social distinction. Eventually, winemakers can monetize the accumulated reputation. To some extent, Podolny (1993) also argues that winemakers will dilute their reputation if their production does not remain limited.

Despite these differences both researchers acknowledge that a winemaker's practices will not directly result in an increase in reputation. This theoretical framework will label these variables reputation moderators as they moderate to what extent a winemaker's practice will increase her or his reputation (Figure 8, C). Hence, this thesis maintains that winemakers will also try to leverage and shape those reputation moderators. Bourdieu (1996) and Podolny (1993) agree that reputation is of time-lagging nature. Furthermore, not all changes in production (e.g. an increase of wine quality) result in a change of reputation due to stochastic nature of information dissemination (Podolny, 1993). Both, Bourdieu (1996) and Podolny (1993) stress the role of a winemaker's relations as reputation moderators. Lastly, reputation is based on perception. Thus, not the actual wine quality or winemaker's behavior informs her or his reputation, but the perception of it (Podolny, 1993).

As both researchers highlight that reputation can endow a winemaker with the possibility to achieve superior financial results, the question arises why some winemakers are more capable of enhancing their reputation than others. Based on Bourdieu's (1986) theory of capital, this thesis maintains that the extent to which the winemaker possesses all four types of capital – namely cultural, economic, social and symbolic capital – in combination with her or his habitus determine the range of feasible practices the winemaker can engage in (Figure 8, D)<sup>6</sup>. Hence, it becomes imperative to understand how winemakers make use of the different kinds

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<sup>6</sup> This thesis will not examine the habitus as this thesis sets out to examine what practices premium winemakers pursue and not why (in terms of fundamental assumptions and beliefs) they engage in certain decisions.

of capital to construct their reputation. Both theories indicate the importance of social as well as economic capital. Relations with other market actors (i.e. social capital) of high reputation are according to both theories conducive to a winemaker's reputation (Bourdieu, 1996; Podolny, 1993). The status-based model implies that economic capital can be used to facilitate quality increases which only after a while will materialize in increased profits (Podolny, 1993). In the theory of cultural production economic capital enables the winemaker to sustain his artistic production by guarding the winemaker from the economic pressure to broaden his production to the mass market (Bourdieu, 1996).

Combining both theories into one theoretical model reveals differences as well as similarities. Firstly, both theories agree that reputation can only be preserved in case of a small production. However, the theories differ in their approach towards the nature of reputation. While in the field of cultural production reputation premium winemakers are thought of as artists who produce art, the status-based model points to sensory quality differences as the origin of status. Secondly, while both theories stress the role of reputation moderators they each list a different set of them. Thirdly, the theories agree that especially social as well as economic capital are needed to foster a winemaker's reputation.

## 4.2 Synthesis

This thesis initiated its research journey with the following research question:

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*How can German premium winemakers charge premium prices?*

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This research question is of relevance as prior research highlights that the price premiums charged cannot fully be explained by the sensory quality of the wines sold.

From the theoretical framework constructed three subordinate research questions emerge:

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*RQ1: What is the foundation of winemakers' reputation?*

*RQ2: How do winemaker leverage and shape reputation moderators?*

*RQ3: Which forms of capital do winemakers use in their construction of reputation?*

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The first research question is concerned with the general nature of reputation in the wine industry. By examining how art-based and quality-based reputation relate in the wine industry this thesis can lay a solid foundation for the following questions. Based on this foundation the following chapters can then highlight how winemakers leverage and shape reputation moderators and what capital they make use of.



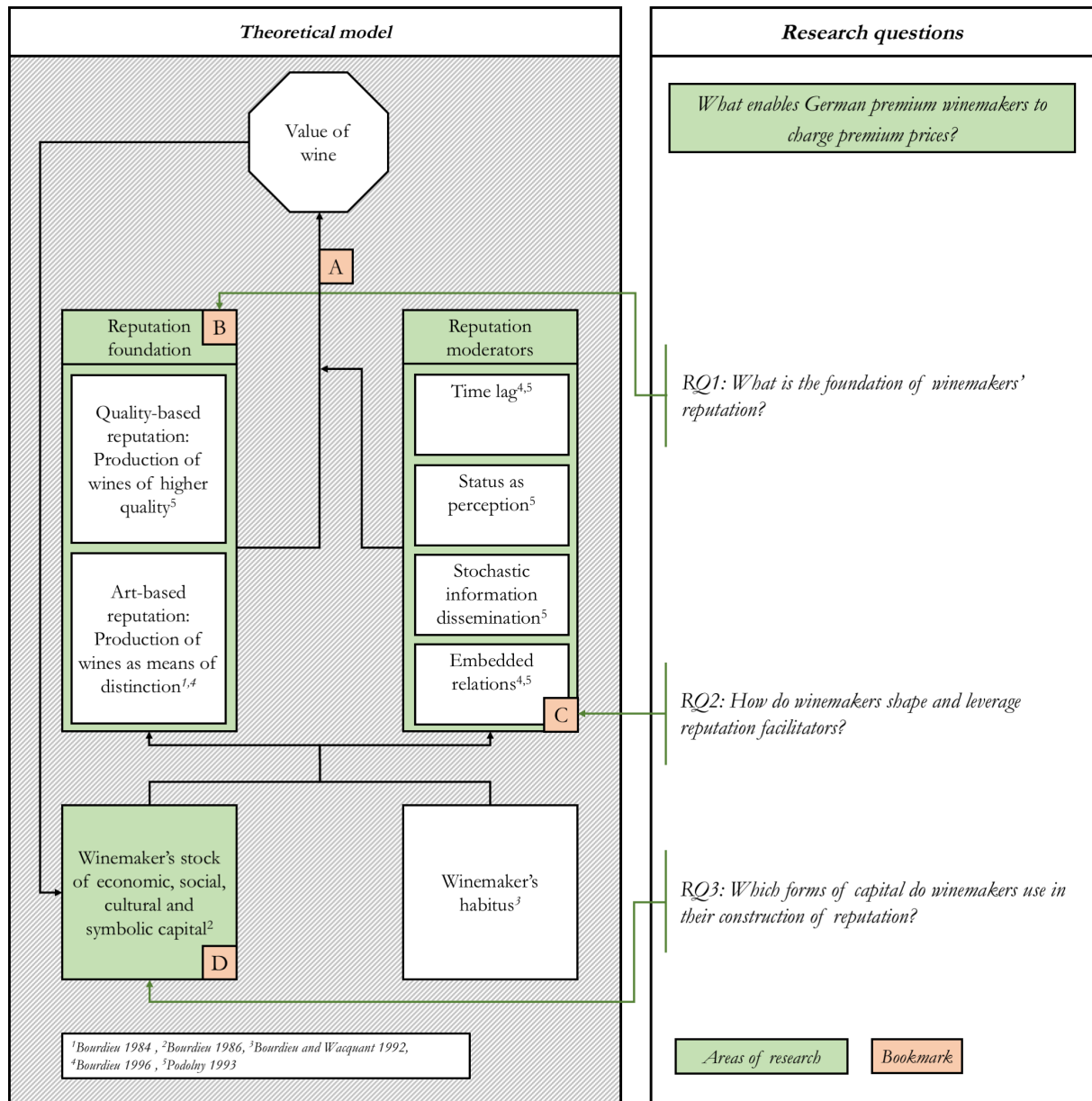


Figure 8 Theoretical framework (Own illustration)

## 5 Methodology

*In this chapter considerations concerning the methodological fit (5.1), the research approach (5.2) the research strategy (5.3) as well as the data collection (5.4) and processing (5.5) will be presented. This chapter will conclude with a discussion about the guiding research quality criteria (5.6).*

### 5.1 Methodological fit

Edmondson and McManus (2007) refer to the methodological fit as the consistency of research question, research design, expected theoretical contribution in light of the existing research.

Sekaran (2016) argues that in the absence of sufficient existing empirical findings, researchers should follow an explorative approach enabling a study to collect data to build a viable theoretical framework. This research will be of an explorative nature as, based on its literature and theory view, this thesis has constructed a theoretical framework of preliminary nature. This renders further explorative research into premium winemaker practices imperative.

Due to its exploratory nature and outlined lack of sufficient prior research, a qualitative study was deemed more suitable. This study hence follows the recommendation of Edmondson and McManus (2007), that research should rely the more on qualitative data the less developed existing theory and empirical findings exist. This is because qualitative research can provide rich and open-ended data accounts. Moreover, Barbour (2008) highlights that qualitative research suits process-focused research questions as it provides a deeper understanding of how and why variables are linked. This study is process-focused as it tries to examine how winemakers utilize the various forms of capital to achieve reputational gains.

### 5.2 Research approach

The research approach describes how a study utilizes theory (Saunders, Lewis, & Thornhill, 2008). In general, research approaches can be categorized as deductive, inductive or abductive. Whereas the deductive logic prescribes moving from theory to data, the inductive approach mirrors the deductive logic (Saunders et al., 2008). This ideal-typical dichotomy can be resolved in the abductive research approach. A tentative theoretical lens guides abductive research in its iterating phases of data collection and processing. This results in a further adjustment and development of the initially proposed theoretical framework. Thus, abductive research enables the use of existing theory and empirical findings while maintaining the possibility of theory building (Flick, 2018).

Therefore, abductive research appears to be the suitable approach for this study. This study initiated its research journey by identifying and combining relevant theories from socio-economic price formation models. Some shortcomings of the proposed theoretical model mark it as preliminary. Hence, the abductive approach will enable this study to collect data guided by but not restricted to the preliminary framework making theory building possible.

### 5.3 Research strategy

#### 5.3.1 Case study design

Out of the many possible research strategies at hand a case study design appears to be the most suitable. Yin (2017) argues that the case study strategy especially suits exploratory research endeavors seeking to

answer “how” and “why” of a contemporary phenomenon in its natural context. As this research is of explorative nature the case study method appears to be highly suitable.

Furthermore, Yin (2017) highlights that within the case study method, researchers are offered a wide array of sub-designs. Firstly, the question arises whether this study should survey one single case or multiple cases. Multiple cases enable “a better understanding of the issue or to theorize about a broader context” (Mills, Durepos, & Wiebe, 2010, p. 583). As the German wine industry with its 13 different wine regions provides a heterogeneous research environment, multiple cases appear to be the superior case design. Moreover, within the multiple case study design, the research can amongst other follow a comparative or non-comparative logic (Mills et al., 2010). However, this study is of explorative nature and prior insights into the practices of premium winemakers are missing. This makes it imperative for the study to produce an in-depth account of the practices of premium winemakers. Consequently, a comparative case design for example between premium and non-premium winemakers appears unsuitable. Hence, the study will apply a non-comparative multiple case study design.

### 5.3.2 Case selection

The case selection plays an essential feature in research design. In exploratory studies, the cases selection should maximize the opportunities for exploring the phenomenon at hand (Mills et al., 2010). Such a purposive case selection technique can create in-depth insights that this study is trying to produce (Saunders et al., 2008). Based on these considerations, a two-step case selection approach appears to be most suitable. This study tries to simultaneously satisfy the need of a non-comparative case study as well as its overall explorative purpose. Hence, a two-step case selection approach focuses on the selection of cases that are homogenous on the outer shell and heterogeneous on the inner shell.

1. Homogeneity of cases:

Firstly, the German wine industry appears under-researched making it a research context of interest. Secondly, in line with the non-comparative nature of this study, this research will solely focus on premium winemakers. Lastly, this study will focus on full-scope wineries ensuring a high level of data richness.

2. Heterogeneity of cases:

To reflect the heterogeneity of the German wine industry, different wine regions will be included in the case selection. Moreover, even within the German premium wine market, winemakers differ in the level of prices that they can demand. Hence, wineries from different price levels within the premium segment will be selected.

1. Criteria of homogeneity	2. Criteria of heterogeneity
German-based	Different wine regions
Premium	Different premium price levels
Full-Scope	

*Table 2 Case selection criteria*

## 5.4 Data collection

This qualitative study conducted semi-structured interviews with winemakers to collect its primary data.

### 5.4.1 Interview sample

The interview sample contains primary interviews with 20 different winemakers varying in length from 35 to 55 minutes with an average length of 45 minutes. Follow-up interviews with four winemakers were conducted lasting between 15 and 20 minutes. As the interview partners were geographically scattered, telephone-based interviews were most suitable (Saunders et al., 2008).

Most of the selected wineries are small-scale businesses that are often family-run. Often only one person, i.e. the winemaker, is responsible for the core activities of the winery. Hence, it can be assumed that interviewing the winemaker provided a reliable account of the winery's reputation building practices.

One of the most prominent German wine guides, Gault&Millaut (Payne, 2017), was used as the database for the identification of suitable wineries. This information was further validated and extended using arms-length research.

Following the homogeneous selection criteria, all interviewees were German-based full-scope winemakers. In total, wineries from the following five wine regions were interviewed: Ahr, Baden, Mosel, Rheinhessen and Rheingau. The selection of these wine regions aimed at including a diverse set of wine regions in this study. Priewe's (2005) description of the German wine regions was used as a basis for this selection. While this interview sample is not a full representation of all wine regions, they together constitute roughly 54% of the entire vineyard area in Germany. Moreover, the selected wine regions are highly diverse. Lastly, the wineries sell their wines in a wide range of prices within the premium segment.<sup>7</sup>

### 5.4.2 Interview design

The study made use of semi-structured interviews. This kind of interview was chosen because it can provide data accounts that are not limited to the theoretical framework but can be guided by it. As such, semi-structured interviews are frequently used in studies of an explorative nature (Saunders et al., 2008).

The interviews were all conducted in German, the mother tongue of all interviewees and the researcher, because of the technical nature of the interviews linked with the low level of English proficiency of Germans (European Commission, 2012). Thus, using the common native language created a relaxed interview situation which fostered reliable interview responses (Saunders et al., 2008).

The interview guides were adapted to each winery based on the prior collected information. All interviews however covered four sections: in its introductory section all winemakers were granted anonymity due to the sensitivity of the interview topic. In the second section winemakers were asked to provide a short description of their winery. Telephone-based interviews have been criticized for lacking the trust-building nature of face-to-face interviews (Saunders et al., 2008). Hence, these first two sections were supposed to establish a trustful interview atmosphere allowing winemakers to provide reliable data accounts. The third interview section was concerned with how wine quality and reputation influence wine prices. In its final section, the interview covered how the winemaker influenced and shaped these factors by making use of certain forms of capital.<sup>8</sup>

The recorded interviews were summarized within 48 hours. Selected relevant parts of the interviews were also transcribed. The summaries and transcription were produced in English. They were checked thoroughly to avoid mistranslations.

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<sup>7</sup> The full list of the interviewees alongside a short description of the wine regions which highlights their diversity is provided in the appendix (11.1 11.2).

<sup>8</sup> A sample interview guide is provided in the appendix (11.3).

## 5.5 Data processing

The data processing was structured into a two-step approach: firstly, the data of each interview was classified into categories. Following Dey's (2014) recommendation these categories were constructed so that they were internally as well as externally coherent. A cross-case synthesis followed which refers to the necessary aggregation of findings beyond the context of individual cases (Yin, 2017). In this data processing step, categories that arose from the individual interviews were compared to construct an overall coherent account of all combined interviews.

Secondly, this study made use of pattern matching. Yin (2017) refers to pattern matching as the comparison of patterns that emerge from the empirics which are on an iterative basis compared to the patterns predicated by the constructed theoretical framework. As such, pattern matching suits abductive studies as it mirrors the continuous iterations between empirics and theory of abductive research. After a first phase of pattern matching, the aforementioned follow-up interviews provided additional data to further validate the arising abductive findings.

## 5.6 Quality of study

Reliability, validity and transferability are suitable criteria to guide the discussions about the quality of a qualitative study like this one bearing in mind some adjustments (Bryman & Bell, 2011).

### 5.6.1 Reliability

Reliability refers to whether the used data collection and processing techniques used will produce consistent results. Interviewees might give biased answers due to their desire to be perceived in a certain way by the interviewer and the research audience (Saunders et al., 2008). To prevent this, interviewees were granted anonymity at the beginning of each interview. Moreover, reliability can also be diminished by observer bias (Saunders et al., 2008). To prevent this, all interviews were recorded with consent. This allowed the researcher to review interview data multiple times and thereby ensure that not the researcher's preconceived notions but the actual data was guiding the analyses. Following Flick's (2018) recommendations, documenting the research process rendered it understandable and even reproducible for the research audience.

### 5.6.2 Validity

Validity concerns "the extent to which a concept is actually represented by the indicators of such concepts" (Mills et al., 2010, p. 959). Mills et al. (2010) extent that ecological validity calls for research findings that are congruent with the experienced perceptions of the participating individuals. To address this need for ecological validity, this study has made use of respondent validation (Bryman & Bell, 2011) in two ways: firstly, within the interviews, the researcher engaged in active listening. Answers that appeared to be of crucial importance were rephrased giving the interviewee the chance to validate or correct the understanding of the researcher. Secondly, the follow-up interviews were used to discuss some of the most crucial emerged findings with the interviewees.

### 5.6.3 Transferability

The final quality criterion of transferability demands research to be transferable beyond the original context of its underlying empirics (Lincoln & Guba, 1985; Saunders et al., 2008). This research has collected empirical data from a selection of German wine regions aiming to establish findings that are transferable to

other German wine regions. However, due to its explorative nature, this study made use of a purposive sampling method. Lacking a representative sample, this research can ultimately only aim for transferability by highlighting the specific context of the empirical data. By doing so, this research helps readers in their transfer efforts to decide to what extent findings are applicable in different contexts (Lincoln & Guba, 1985). These context factors will be highlighted in the final two chapters of this study.

## 6 Empirical findings

*In the following section, this thesis will present empirical findings from 24 semi-structured interviews with premium winemakers in Germany. Guided by the overall research question of how winemakers are able to charge premium prices, four central themes emerged: quality of wine (6.1), rareness (6.2), reputation (6.3) and marketing and sales activities (6.4). Even though the themes are structured into differing numbers of sections, they all follow a similar structure. Firstly, empirics provide evidence and reason why a particular theme is relevant for the question of wine price formation. Secondly, data will provide insights on how winemakers try to influence those identified factors.*

*Due to the technical nature of the empirical findings, readers are advised to consult the [glossary](#) in case of questions.*

### 6.1 Quality of wine

The following section will show how winemakers perceive the link between wine quality and wine price. Wine quality shall be understood as sensory wine quality, i.e. taste and smell.

#### 6.1.1 Importance of wine quality

Most winemakers view the quality of their wines as the driver of their overall business success.

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*“The final product in the bottle is the key for success.” (Winery I)*

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All winemakers assert that wine quality is one of the major forces in the wine price formation process. They argue that producing wines of higher quality allows them to charge higher prices.

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*“Raising the average revenue per bottle - that is only possible by increasing the product quality.” (Winery O)*

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Beyond the general consensus that wine quality does affect wine price, interviewees disagree on the extent of this effect. Some winemakers believe that wine prices fully reflect wine quality. Others however object. Some winemakers claim that wine quality can explain only a certain, but still major, part of the variation of wine prices. Other allege that above a certain price level, wine quality becomes so indistinguishable that the relationship of price and quality is no longer proportionate.

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*“In those [high price] categories this [i.e. the price] can no longer be explained by quality. If you tasted it [i.e. an extremely high-priced wine] in a blind setting you would maybe even taste no difference to another good wine. Or the difference is marginal. One wine costs 15€, the other wine costs 50€, but it is not of threefold value.” (Winery S)<sup>9</sup>*

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Linked to this discussion about noticeable sensory differences in wine quality, some winemakers further contend that quality differences need to be noticeable by their customers. These winemakers argue that the customers would only be willing to pay a premium price if they themselves could taste the difference.

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<sup>9</sup> Winemaker S focuses on mid-priced wines.

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*“It is important that customers themselves taste and experience that [i.e. difference in qualities].” (Winery L)*

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However, others like winemaker M reason that most wine consumers do not possess the skills to reliably determine the quality of the wine. More importantly, he highlights that these discussions about wine quality are consciously concealed from customers.

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*“Only 1 in 100 customers can identify whether a wine has a smell like rotten eggs. [...] Many winemakers with high quality wines are not successful, whereas winemakers with low quality wines are successful. [...] But I would never say that to my customers. I would tell them: ‘you only sell [wine successfully] thanks to the quality.’” (Winery M)<sup>10</sup>*

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While the interviews focused on price as a dependent variable, one winemaker also suggests an understanding of wine price as an independent variable which influences subjective quality assessments.

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*“Back then when I did my apprenticeship my master told me: ‘a wine that does not cost anything is worth nothing.’” (Winery D)*

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### 6.1.2 Defining wine quality

After having shown that wine quality is believed to impact wine prices, a question of fundamental importance arises: what actually is wine quality? Put differently, what do winemakers consider to be a good wine?

At this point, it should be noted that all interviewed winemakers offer wines in a wide range of prices.<sup>11</sup> Interviewing winemakers about this price range revealed that for the different price levels different quality criteria are of importance. Hence, the following empirics should be understood within this continuum.

Most winemakers argue that their least expensive wines are those that are made for easy, fast and daily consumption. Winery M and Winery J who predominantly focus on mid-priced wines assert that for a wine to be successful it needs to be “flawless” and “pleasant”.

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*“For the other customers [unfamiliar with wine] the wine just has to be pleasing. [...] The wine needs to be flawless.” (Winery M)*

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For high-priced wines many winemakers declare typicity to be the major quality driver beyond the notion of “flawlessness” and “pleasantness”. Some winemakers argue that their most expensive wines should reflect the unique characteristics, especially the soil properties, of its vineyards. Winemakers here frequently refer to the aforementioned concept of terroir. Subsequently, high-priced wines should not taste as if they were industrially produced. Winemaker L defines wines of high quality by contrasting them to their counterpart, industrially produced wines of low quality, to which he also refers to as “gummy bear” wines.

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<sup>10</sup> Winemaker M focuses on mid-priced wines.

<sup>11</sup> See appendix (11.1)



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*“We winemakers always describe gummy bear wines as overly fruity, sweet, lacking substance, no mineral flavor. I would describe them as simple and, yes, undemanding. [...] A wine that I can find at every corner, that can grow in any vineyard.” (Winery L)*

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Based on this notion of typicity, winemakers often claim that they want to create unique and highly distinctive products with their wines of highest quality. Some winemakers even assert that their wines of highest quality are so unique that they are polarizing.

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*“Wine quality in those [high] price ranges is not defined as good or bad but in terms of its distinctiveness or characteristics. What is the product like?” (Winemaker Q)*

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Besides this notion of typicity, wines in the higher price ranges are supposed to be complex and consequently demanding. Winemaker R highlights the “profound” nature of his wines which requires a certain experience and knowledge of wine. Moreover, wines of higher price categories are those of a higher longevity. The most expensive wines are those that only reach their full potential after some time.

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*“The most expensive wines are those which one can drink after 20 or 30 years and one is still excited.” (Winery R)*

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### 6.1.3 Producing wines of quality

So how do winemakers produce wines of high quality? On first sight, this question might appear to be only of technical relevance. However, in the qualitative and iterative research process “wine quality activities” have in fact emerged to be of major relevance for the price-quality paradox. Thus, despite its complexity, this paper has decided to include these technical discussions as they offer indispensable insights.

#### 6.1.3.1 Importance of cultivating nature

All winemakers agree that wine quality is created in the vineyard. More specifically, the quality of the grapes is argued to be the driver of wine quality.

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*“The quality of the wine depends on the quality of the grapes. [...] If the product quality of what I process is not good, I can only produce something well. But it can never be really good.” (Winery D)*

---

One winemaker even argued that Germany’s wine industry faced severe challenges in the 1980s and 1990s because winemakers had focused too much on the activities in the cellar during the winemaking process.

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*“German wine was of bad reputation. German wine was of low quality. During this time, it was believed that wines were produced in the cellar. Wines were mass-produced. [...] The feeling for nature was lost.” (Winery B)*

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#### 6.1.3.2 Vineyards

All winemakers argue that vineyards need to be of certain exposure and soil properties to produce high quality grapes. A certain exposure ensures that plants receive enough sun exposure and thus are able to

produce fully ripened grapes. Grapes for mid-priced wines are usually produced on loam or loess soils. Grapes for high-priced wines are often cultivated on vineyards with high mineral properties, such as schist, lime or black volcanic residual soils. Wine extracted out of grapes grown on these soils can exhibit a mineral flavor that is unique and typical for these soils. In contrast, winemakers assert that loam or loess soils are less mineral resulting in wines that lack a sensory quality which connects it to its origin.

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*“The criteria [for good vineyards] is whether they are of schist soil or not. Because we know that the soil properties play a major role for certain properties of the wine. We call this the mineral flavor of the wine. This [i.e. schist soils] forms the character of the wine.” (Winery M)*

*“Such soils provide the grape plant with minerals [...]. During the fermentation process these minerals are transformed into certain salty flavors.” (Winery T)*

---

All winemakers state that only a few vineyards in their respective region or even on earth possess these special soil properties. Some winemakers claim that it is this rarity that renders the flavors typical for those soils so highly sought after.

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*“There are only three regions in the world where Pinot Noir grapes grow on schist soils. That is another reason why schist soils are so special.” (Winery T)*

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Some wineries moreover are the sole owner of an entire vineyard. Those winemakers can thus claim that they produce a rare product thanks to their exclusive property rights.

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*“Most of our vineyards are in fact in the exclusive possession of the winery, which is obviously a unique feature.” (Winery L)*

---

As these vineyards offer better grapes and hence a higher return, these vineyards are often expensive to rent or purchase. Winemaker D exemplifies for the Mosel valley that rent for schist vineyards are tenfold the rent of loam or loss vineyards. To cope with these high prices, some winemakers buy or lease a vineyard in cooperation with another winemaker. In some regions, such as Baden, demand is so high that these special vineyards can only be acquired through personal ties.

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*“You can only acquire new vineyards if a relative or a friend gives up a vineyard and wants to pass it on. [...] Those vineyards are always sold privately, not via adverts.” (Winemaker S)*

---

Even in regions where these vineyards are still relatively easy to acquire connections endow an established winemaker with a crucial time advantage.

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*“For a newcomer it is surely more difficult to acquire this [i.e. vineyards with special soil properties]. And well, we as winemakers in our region, we know each other. Consequently, one will hear about an offer relatively early. If one is a newcomer and does not know the people, one will hear about that offer only at a point when the vineyard is already sold.” (Winemaker C)*

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Other winemakers add that it is not only their personal network but also their employees who extend the overall network of the winery and help to acquire new vineyards. Additionally, the reputation of the winemaker not in terms of wine quality but in terms of vineyard practices are beneficial for acquiring new vineyards of desirable properties. Some vineyard property owners also give preferential treatment to grape growers who work ecologically.

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*“In case you lease a vineyard, 90% of the owners attach importance to the vineyard looking well-maintained and being free of excessive amounts of weed.” (Winemaker R)*

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### 6.1.3.3 Vineyard practices

Vineyard practices also influence the grape quality. All winemakers mention that the yield per hectare is the most important lever to influence the grape quality. They argue that only through low yields wines will be able to reflect the unique vineyard properties in which their grapes were grown.

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*“God spread a handful of flavor on a hectare of land. If I concentrate that flavor on 5.000 liters or 10.000 liters, that makes the differences.” (Winery L)*

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Winemakers mention a wide array of techniques such as the thinning out of grapes at each grapevine enabling them to ensure lower yields. Moreover, also the age of the plants contributes to lower yields. Winemaker K for example mentions that his best grapes come from a vineyard with the oldest grapevines planted by his father over 60 years ago.

Moreover, many of the winemakers argue that they adhere to ecological standards in the vineyard to raise the quality of their grapes even though they might not be officially certified. They reason that by abstaining from the use of chemicals in the vineyard, they can protect and sustain the unique soil properties of the vineyard.

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*“A good wine comes from a vineyard of good soil. The soil needs to be healthy. If one thinks this through properly, one comes to the conclusion that ecological vineyard practices are a must. [...] The percentage of bio-certified wineries in the higher price segments is much than in the entry level.” (Winery O)*

---

Winemakers also rely on more manual work for their wines of highest quality. Whereas for mid-priced wines many production steps are mechanized, more handwork is used for high-priced wines. Winemakers argue that handwork compared to machine usage yields the higher quality. Winemakers illustrate that performing the harvest by hand enables the quality assessment of each individual grape and consequently the selection of the better grapes for wines of higher quality.

Despite the work winemakers put into their vineyards all year long, many mention that as grapes are a natural product, the varying weather conditions restrain the achievement of the desired level of grape quality in some years. Some wineries claim that especially in years of unfavorable weather conditions, financial capital can give winemakers the possibility to sustain the quality level by not being forced to make use of all grapes including those of low quality.

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*“A good example is the harvest of 2014 which was horrible because we had many rotten grapes. We had the possibility to discard those rotten grapes [because of the financial capabilities of the winery]. Other wineries had to*

*harvest and use those grapes to produce a sufficient amount of wine so that they could pay the interest of their bank loans.” (Winery Q)*

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#### 6.1.3.4 Vinification process

Whereas winemakers view the work in the vineyard as highly crucial for the final product quality, the processing of grapes into wines is seen reasoned to be less influential.

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*“The quality is solely determined in the vineyard. One can only try to maintain the level of quality that one has achieved previously in the vineyard. It is impossible to improve something in the cellar.” (Winemaker A)*

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Consequently, winemakers view cellar equipment used for the wine production process less important for the wine quality. Instead of relying on high-tech cellar equipment, many premium winemakers rely on rather traditional and simple equipment that enables a “natural” vinification process. While for some wineries this means using the same equipment that has been already used by their predecessors, winery R even invested a lot of capital to build a new cellar facility which was dug multiple levels deep into the ground.

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*“The cellar equipment is distributed over multiple levels. This means we can use mere gravity and do not need to pump the wine. [...] The more careful one works with the grapes, the grapes skin, the must, the better the final wine quality.” (Winery R)*

---

Following the divergent patterns in the grape production for different price levels, different wine stylistics appear to be favored for different price ranges. Winemakers often leave more residual sugar in their mid-priced wines to balance the level of acidity and to underline the wine’s fruity flavors. Mid-priced wines are thus often a bit sweet and easy to drink. While not all winemakers engage in the vinification methods for their mid-priced wines, they assert that this is common practice. One winemaker also reveals that in low- and mid-priced wines residual sugar is used to cover up the relatively low quality of the wine. Less expensive wines are generally made out of the worse grapes available to a winemaker. Wines produced out of these grapes can display unpleasant flavors that can be covered with the residual sugar.

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*“Especially the residual sugar makes the mid-priced wines really pleasant to drink.” (Winery T)*

*“Those [mid-priced] wines are supposed to be easy to drink, well uncomplicated.” (Winery S)*

---

In contrast, high-priced wines are usually fully fermented, thus contain little to no residual sugar, and are often of higher acidity. Winemakers renounce from using residual sugar as it would cover more subtle flavors such as mineral ones. Moreover, winemakers emphasize that they give their more expensive wines more time to develop in the cellar. Winemakers let their more expensive wines mature in small oak barrels which helps to build up wines that are of more “complex” nature and higher longevity. Winery R labels its most expensive lines of wines “Zeit” which is the German expression for time. In contrast, wineries focusing on the mid-priced wines such as the Winery J only recently introduced the use of oak barrels in its wine production process.

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*“Our most expensive wines have a longer maturation process in the oak barrels. [...] These are wines that have to develop over time. After two or three years of aging one can notice the full potential of these wines.” (Winery R)*

---

When comparing the different wine styles of the price categories winemakers, often assert that their high-priced wines are not produced with the average consumer’s taste preferences in mind. They highlight that wines with oak barrel flavors and of no residual sugar are not compliant with the taste preferences of inexperienced consumers. Hence, a certain knowledge and experience with wines appears to be required to fully enjoy these more demanding wines. However, winery Q points out that this does not exclude the possibility of high-priced wines being compliant with general taste preferences.

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*“We use a spontaneous fermentation, low yields, a bit of maturation in oak barrels and a bit more acidity for our most expensive Riesling. That does not always align with the [taste of the] general public. One cannot just chug those wines. I mean, these are wines that you want to have with a multi-course meal. [...] These are wines for a special clientele. The higher the price [of a wine] the smaller its customer base. The customers who buy those [expensive] wines engage in the topic of wine.” (Winery S)*

*“We often hear from our friends of family [who drink wine rather rarely] who say: ‘why does this bottle of wine cost 15€ instead of 7€? And the wine for 7€ tastes better to me.’” (Winery R)*

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Lastly, winemakers regularly mention that on the one hand they want to preserve their wine style while on the other hand they need to consequently refine it.

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*“... because we cannot just rest on our tradition, we constantly need to refine our wines.” (Winery L)*

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Most winemakers emphasize that they generally do not follow every market trend, especially those that appear to them of rather short nature. Winemakers seem to be especially critical about vinification innovations that might artificially make a wine more interesting in the short run, but lead to a shorter longevity.

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*“My cellar practices are really traditional. [...] The market for wine like every other market moves very fast, but I move very slow.” (Winery F)*

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Many winemakers also assert that they constantly seek to improve their vinification (as well as vineyard) practices. For that purpose, they maintain an active exchange of knowledge and ideas with their peers. Most winemakers participate in tastings of their new vintage or of wines from other regions with their local peers in a closed setting. Winemakers source new ideas from these gatherings. Winemakers also incorporate and copy successful practices from their more renowned peers outside of these gatherings. Special wine publications as well as customer feedback are also a source of innovation.

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*“Together with my colleagues we regularly taste wines of a specific grape variety from different regions. These tastings help us to identify what is out there in the wine market to refine our own wines. [...] Over the years we have imported trends from French wine regions, especially from Burgundy.” (Winery L)*

---

However, many winemakers point out that this collaboration has rather recently emerged among German premium winemakers. Some winemakers from the Mosel area mention that due to jealousy among winemakers exchange still remains limited to winemakers with whom they share a close personal connection.

## 6.2 Rareness

Closely connected to the wine quality criterion of distinctiveness, winemakers also argue that the overall product rareness can drive the wine price.

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*“The price [extremely high-priced wine] is based on the reputation and product rareness.” (Winemaker S)*

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One winemaker reports that as the demand for his wines has risen much faster than he was able to increase his production capacity he now distributes his wines using a subscription model which means that customers “apply” to purchase a certain amount. However, due to demand surplus customers are rarely offered the full demanded amount. Hence, the winemaker’s wines appear to be rare, reinforcing demand and thus price.

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*“Maybe you know the winery Keller or Egon Müller. There the bottle sometimes costs 500.000€. A tool over which the winemaker maybe does not have full control, but which is surely helpful [i.e. to achieve high prices], is scarcity. When the customers hear that it is scare, then they want it twice as much. That is how it is in our winery. There are people who almost become aggressive when they do not get their wine.” (Winery E)*

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## 6.3 Reputation

The overall rating in the wine guide Gault&Millau 2017 (Payne, 2017) is used as a proxy for the specific level of reputation that a winemaker enjoys.

### 6.3.1 Importance of reputation

Many winemakers refer to their reputation as one of the cornerstones of their overall business success.

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*“Prestige and reputation are everything.” (Winery E)*

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More specifically, all winemakers assert that reputation influences the price formation in the wine industry. All winemakers agree that a good reputation can help to charge a price premium.

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*“One perspective on price formation in the wine industry is cost-based. Obviously, one cannot offer a product below its production costs [...]. The other view on price formation is concerned with price acceptance. One’s reputation can elevate the price acceptance.” (Winery B)*

---

Winemaker K reasons that reputation plays a seminal role because it can inform the sensory quality assessment of a wine. He exemplifies that, while customers might question the quality of a wine produced by an unrenowned winery, they would rather question their own tasting skills in case the same wine had been produced by a reputable winery. Winemaker T suggests that wine consumers are willing to pay a premium to drink a wine from a famous winery out of status reasons.

Many winemakers assert that their reputation enables them to demand a price premium especially for their least expensive wines. Some winemakers argue that the overall reputation of the winery is able to convince wine consumers that also the winery's mid-priced wines are of high quality.

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*"I think that the customer always has an overall picture of the winery in mind. [...] With a good reputation my winery has a positive connotation in people's minds. And then the customers are convinced that the other [i.e. mid-priced] wines are also good." (Winery L)*

---

Less renowned winemakers even argue that their more renowned colleagues sell mid-priced wines which were not produced by the renowned winemakers themselves. Accordingly, more renowned winemakers would buy bulk wines (i.e. wine that has not been bottled yet) of flawless but not extraordinary quality. Those bulk wines are produced by another less renowned winemaker. However, these more renowned winemakers would then bottle those bulk wines using their renowned brands. Their reputation as objectified in their brand would then enable those renowned winemakers to sell wines at a price premium.

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*"Iconic winemakers surely achieve their business success with their other [low-priced] wines which are elevated by the winemaker's reputation. A not so renowned winery might sell its least expensive wine for 5€. But iconic wineries, they sell this wine for 8€. The quality is the same, but the reputation makes the difference." (Winemaker S)*

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Contrary to those "accusations", one of the most renowned winemakers interviewed reasserts his passion for offering excellent mid-priced wines and claims that all wines bottled by him are actually also produced by him.

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*"The average quality [of my wines] is way more important to me. [...] The customer should already get a great product without having to buy a wine for 30€." (Winery K)*

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In addition, winemakers also appear to be aware of the danger of diluting their reputation. Interviewees frequently refer to the news that two iconic winemakers (Winery Othegraven and Winery Robert Weil) have started to sell low-priced wines distributed via discounters and supermarkets. Both winemakers however make use of brands that are only slightly reminiscent of the actual iconic wine brand.

Not only the reputation of the individual winemaker, but also the collective reputation of the wine region in which a winemaker operates is believed to have a significant effect on the prices. The reputation of the region sets the general price level in comparison to which a winemaker can demand a certain price.

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*"There are some regional differences. I am located in a part of the Mosel valley which in fact is not home to renowned wineries. That is why it is difficult for me to demand higher prices. [...] People regularly ask me: 'how can it be that I get wine from your neighboring colleagues for 4€ and for your wine I shall pay 7€?'" (Winery L)*

---

In addition, winemakers also absorb collective reputation from certain winemaker associations. Interviewed winemakers often refer to the VDP (Verein deutscher Prädikatswinzer) as the most renowned German closed quality wine circle. Members are allowed to use the logo of the VDP on their capsule. Thereby they can raise the consumers' awareness of their membership in the VDP during every purchase decision. All VDP members interviewed affirm that this membership allows them to demand a price premium. One VDP member quantifies that premium to three to four euros per bottle.

## 6.3.2 Creating and maintaining reputation

Subsequently, it becomes of interest to investigate how winemakers can build up their reputation. Or put differently, why are certain wineries more able to build up a reputation allowing them to charge higher prices?

### 6.3.2.1 Individual reputation

All winemakers link their individual reputation to the level of quality of their wines. Winemakers further argue that they need to deliver wines of constant high quality even in years of climatic conditions that are unfavorable for producing wines of the highest quality level.

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*“A winemaker just cannot produce a wine collection that is highly praised in the year and then produce wines of low quality in the second year. Reputation, that comes from producing wines of high quality over years.” (Winery T)*

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Based on the criteria of constant quality some winemakers highlight that reputation can only be build up over a long period of time. Winemaker E for example claims that his winery only enjoys a good reputation because his predecessor, in this case his father, produced high quality wines over decades.

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*“One has a certain position [i.e. reputation] in the market. But you cannot change that overnight.” (Winery T)*

---

Many winemakers claim that these initial years during which a winemaker builds up her or his reputation are years of low profitability. Some winemakers report that they were able to finance these years thanks to previously accumulated capital or thanks to external investors. However, winemakers agree that once a reputation has been built up, it pays off financially and thus becomes easier to sustain. Winemaker B consequently compares the time properties of a winemaker’s reputation to a bank account.

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*“Essentially, reputation is like a bank account. Every positive action for one’s reputation is like a deposit. Eventually, reputation pays interest because stronger reputation allows me to overcome certain market forces. And with market forces I mean all competitors and of course the price.” (Winery B)*

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Many winemakers mention that to build up their reputation they are participating in wine guides and competitions. Gault&Millau, Eichelmann and Falstatt appear to be dominant wine guides in Germany. However, in the last years more and more guides and competitions have been established. Due to the high participation fees, premium winemakers appear to focus their resources on the dominant and hence high-circulation wine guides and competitions.

Compared to competitions which are open to everyone, a winemaker can only participate upon invitation in a wine guide. Two newcomers interviewed report that already established winemakers had recommended them to the wine guides. These recommendations enabled those newcomers to gain an invitation to participate in certain wine guides.

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*“One cannot just say ‘I want to send them [i.e. wine guides] wines.’ They [i.e. wine guides] in fact invite you. Afterwards I learnt that one of my masters [from the apprenticeship] had put in a good word for me.” (Winery L)*

---



Wine guides offer their readers rankings of individual wines as well as an overall ranking of the winery. Many winemakers highlight that this overall ranking of their winery reflecting their overall reputation mainly depends on their most expensive wines. Wine guides or competitions apparently do not force winemakers to send in their entire collection. Hence, winemakers naturally tend to send in the wines from the higher end of the quality (i.e. price) range.

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*“Quite frankly, a winery builds up its reputation with those [high-priced] wines. The wines below, surely they must be of good quality, without flaws, but those are less important for the overall reputation of the winery.” (Winery L)*

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Unique product offerings also help winemakers to build up their reputation. One winemaker for example mentions that he was one of the first bio-certified winemakers in his wine region which allowed him to draw a lot of attention to his wines. Unique grape varieties are also used for reputational purposes.

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*“Syrah, Merlot, Cabernet Franc – those are relatively unique [wines] for our region. [...]. With the Merlot wine and with the Syrah wine I attract customers.” (Winery M)*

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It is noteworthy that although all winemakers interviewed participated in guides and competitions, only a few winemakers restrained from criticizing wine critics for their highly subjective wine assessments.

### 6.3.2.2 Collective reputation

Winemakers assert through various examples that they also engage in activities to build up and consequently enjoy a positive collective reputation. One major source of collective reputation is the reputation of the wine region in which a winemaker is located. Especially winemakers from the Mosel valley argue that collective reputation only changes slowly. They claim that despite offering wines of high quality the reputation of the Mosel valley still has not fully recovered from wine scandals of the 1980s.

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*“Winemakers from the Mosel really have put in a lot of work to restore the image of the wine region. But that still was not enough to resolve the reputational problems [of the Mosel region] which were bred in the mid 1980s.” (Winery Q)*

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To raise the reputation of their wine region, most winemakers have joined or even founded regional winemaker groups. Winemakers can join these groups at their discretion. These groups are sometimes of looser structure, being based just on informal corporation. As mentioned above, from an internal perspective, these organizations try to foster an exchange of knowledge and experience. This presumably advances the quality and thereby the overall regional reputation. More importantly however, winemakers argue that customers nowadays want to drink wines from many different winemakers. Hence, winemakers believe that they can gain more attention by hosting joint events.

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*“My personal opinion is that one has to advance the entire region. One winery alone cannot do much [i.e. advance the region]. [...] I think, that if we collaborate we have a bigger lever to gain attention. [...] So, when we have events on premise we usually have other winemakers also involved. [...] (Winery R)*

---

Closed quality circles appear to be a common source of collective reputation for the interviewed winemakers. Members of various closed quality circles were interviewed including the VDP, the klitzekleine

Ring, the Bernkastler Ring and the 13 Breisgauer Winzer. A winemaker can join a closed quality circle only upon invitation of the already admitted members. Hence, winemakers build up individual reputation leveraging wine critics also to gain access to closed quality circles.

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*“One [i.e. a winemaker who wants to be join the VDP] needs to stand out in terms of quality over years and enjoy a corresponding reputation [to receive an invitation to the VDP].” (Winery L)*

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Members of these closed quality circles share the point of view that these associations have ensured that the wines offered by its members are of constant quality through various internal peer-control mechanisms. The consistent quality combined with marketing efforts is argued to be the basis for the collective reputation. It should be noted that some wineries who were not part of the VDP criticize that VDP wineries use this collective reputation to charge price premiums disproportionate to the quality premium offered.

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*“Thanks to the image campaigns that the VDP has conducted over all those years and by having shown again and again that one buys a better wine if it is a VDP wine, we are able to demand a price premium. [...] When the [VDP] logo is on the capsule, one really does not make a bad choice.” (Winery K, member of the VDP)*

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## 6.4 Marketing and sales activities

The first three sections were mainly focused on the effects of wine quality, respectively the connected phenomenon of reputation, on the wine price. However, in the empirics, a pattern among the marketing and sales activities influencing price formation also emerged.

### 6.4.1 Importance of marketing and sales activities

Many winemakers assert that their marketing and sales activities are of major importance to achieve high market prices. Especially illustrative is the example of one winemaker who bought up a winery that went bankrupt. The winery was and is focused on high-priced wines, supposedly to cover the high production costs. These accrue due to steep vineyards, which offer high quality grapes but require manual labor and offer only extremely low yields. The new owner of the winery argues that the former owners, despite an excellent wine quality, failed to achieve high enough prices because they spend too little time marketing their wines.

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*“They [i.e. the former owners] have failed because they have not achieved the price that they needed. [...] To achieve these prices, one really needs to spend a lot of time on marketing. [...] I am responsible for the vinification as well as the sales. I can say, vinification activities are 20% of the work time, 10% administrative tasks, 70% marketing.” (Winery Q)*

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### 6.4.2 Customer relationship

The fundament of the many marketing and sales activities cited appears to be a longstanding relationship with their customers. This holds true for business-to-business (e.g. with wine traders) as well as business-to-customer (e.g. with end consumers) relationships. One winery even claims that certain business relationship with specialized wine retailers only came into being out of personal liking for each other. Most

winemakers report that some of these business relationships have transformed into friendships. Winery N even calls its customers “wine friends”.

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*“With 70% of our customers we are on a first-name basis. We really know them. [...] Someone who comes into our winery and is a stranger leaves this place as a friend.” (Winery N)*

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When asked why winemakers do not produce higher quality wines to achieve higher market prices winemakers bring forward the argument that their current customer base would not be willing to pay these higher prices. Moreover, the potential customer base for high-priced wines would be limited in Germany making it difficult to expand the customer base into less price-sensitive areas.

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*“If everyone wanted to sell his 90€ wine, that would not work. [...] No one would come and land with his helicopter on my backyard to spend so much for a bottle. One has to serve his clientele.” (Winemaker S)*

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### 6.4.3 Building up relationships

To build up these longstanding and personal relationships winemakers spend a lot of time with their customers in person. Sending price lists or newsletter to customers is seen as insufficient in building up lasting business relationships. While winemakers visit their specialized traders often on the traders’ premises (i.e. wine shops,...), end consumers regularly visit the winery’s premises to taste and buy wines. Many winemakers highlight that their customers specifically seek the contact with the winemaker her- or himself. Winery N even claims that they have decreased their wine production (and thus the work time required in the vineyard) in order to have more time with their customers. Another winemaker opened a wine bar within the stadium of a football club playing in the first German football league. The winemaker is present and serves his wines himself at every game of this football club.

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*“At least 100 to 120 days I am not at the Mosel, but instead with our customer.” (Winery Q)*

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Winemakers focused on high-priced wines report that they gain access to this specific clientele by trying to place their wines in high-end restaurants. They assert that customers who are willing to spend that much money on food are likely to be interested in their wines.

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*“The thing that I did was to go to excellent star-restaurants all over Germany. When the people are in the restaurants in Berlin, Hamburg or Düsseldorf and drink the wine and are really excited, then one obviously goes on Google and looks around [for my wines].” (Winery P)*

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However, also winemakers who are more focused on mid-priced wines regularly mention restaurants of high standards as important touch points with customers. To nurture the arising touch points with end consumers in the restaurants many winemakers regularly host events with restaurants in which they serve and explain wines selected to suit a fixed multi-course menu. Some winemakers report that their personal contacts to sommeliers which they acquired for example through formal education in sommelier courses helped them to get listed in those restaurants.

## 6.4.4 Storyline

Winemakers report that they often make use of “storytelling” (sic) during these points of contact. Hence, empirical data will depict its importance, forms and supporting facilitators.

### 6.4.4.1 Importance of storytelling

Winemakers argue that storytelling is key since today’s wine consumers are offered many wines of high quality.

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*“Today, there are so many high-quality wines offered on the international wine market so that additional value for the customer is crucial. That [additional value] is all about telling stories.” (Winery B)*

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The interviewees offer diverging opinions on the importance of storytelling. Some winemakers allege that in the end a customer buys a wine because it tastes well to her or him. In contrast, others claim that wine quality becomes secondary for the purchase decisions when winemakers are able to craft interesting stories. Some winemakers fall in-between both positions. These winemakers argue that storytelling is an effective tool but only if it is based on objective sensory qualities.

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*“When the customer is on the winery premises he tastes the two wines [i.e. wines from different price categories] in comparison. And then he will taste the difference. Then I can explain what we did differently [in the production process of the wines].” (Winery L)*

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### 6.4.4.2 Content of storytelling

Winemakers especially make use of storytelling when customers visit their winery premises and taste wines. In their stories winemakers often highlight the production process. Especially stories about the vineyard practices, such as harvesting by hand or using grapes from old grapevines that were planted by the winemaker’s parents, are used to justify high wine prices.

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*“The main points that we tell [our customers to justify high wines prices] are: really steep vineyards, extremely old grapevines, [...]” (Winery Q)*

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Winemakers especially seem to highlight those parts of the production that reconnect their wines to the nature. In order to do so they often guide their customers through their vineyards and stress that they apply ecological and sustainable vineyard practices. Conversely, the usage of machines or chemicals appears not to be a topic.

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*“Many of our traders, restauranters, sommeliers et cetera come to visit our winery during the year. Then, we take a lot of time to visit the vineyards. That is a really important aspect.” (Winery Q)*

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Winery F criticizes that winemakers often create the false illusion of them working in an ecological and sustainable fashion by consciously concealing certain vineyard practices that are of rather ecologically damaging or mass-industrial nature. He stresses that winemakers engage in these practices because their customers want to hear and also want to believe these stories. Others partly agree by revealing that certain

vineyard practices are performed by hand not only because they yield grapes of higher quality, but also because machine work (especially for harvesting) has a negative image.

#### 6.4.4.3 Facilitators of storytelling

Winemakers appear to strengthen these stories by leveraging the architectural design of their winery estate. Natural materials are commonly used in the constructions of the exterior facing and the interior design of the tasting rooms.

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*“When we renovated our tasting room we wanted to show how we work outside. That was all done with natural materials: wood, hemp isolation, even loam rendering. That was made in such a fashion to convey the message that we are connected to the nature during the tastings.” (Winery I)*

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## 7 Analysis

*This analysis aims to shed light on the overall research question of how premium winemakers can charge premium prices. The first section will be able to shed light on the overall importance of reputation on the price formation process (7.1). Secondly, the foundation of a winemaker's reputation will be analyzed by discussing the link of artistic and quality reputation (7.2). Based on this foundation the following chapters can then highlight how winemakers shape and leverage reputation moderators (7.3) and what capital they make use of (7.4).*

### 7.1 Importance of reputation in the price formation process

Based on Bourdieu's (1996) theory of cultural production and Podolny's (1993) status-based model of competition the theoretical framework centers around reputation as the basis for the ability to charge premium prices. The empirics provide support for that link. The individual as well as collective reputation that a winery enjoys are described as major drivers of the price it can demand. Reputation seems to especially be relevant for mid-priced wines as winemakers highlight the role of reputation as a price driver for these wines. That renowned winemakers can buy bulk wine produced by less renowned winemakers and sell this wine bottled under their reputable label with a significant price premium provides instructive empirical evidence. Using Bourdieu's (1996) terminology this thesis suggests that winemakers consecrate their wines to be of value by leveraging their accumulated reputation. Hence, evidence is found for Bourdieu's (1996) and Podolny's (1993) theoretical claims that reputation enables winemakers to charge premium prices. However, subsequently the question arises how winemakers manage to build up their reputation.

### 7.2 Reputation foundation

According to Bourdieu (1996) winemakers build up reputation by producing wines that are targeted not to the mass market but towards knowledgeable wine consumers. Those consumers could use premium wines as means of social distinction. In contrast, Podolny (1993) highlights that winemakers could raise their reputation by raising the quality of their wines as perceived in relation to the quality of their competitors. Consequently, linking the different conceptualizations of reputation could present a strong foundation to answering the question of how winemakers can craft their reputation.

#### 7.2.1 Wine quality definition

The empirics indicate that the definition of wine quality is central for that link. Wine quality appears to be understood as a multidimensional concept that is contingent on the price (Figure 9). For mid-priced wines, wine quality appears to follow the criterion of pleasantness to drink. For high-priced wines typicity, complexity and longevity are key criteria. Wines in this price range should reflect the terroir in which its grapes were grown. In the highest price range, uniqueness and rareness are the main criteria. Hence, high quality wines appear to strive for similar quality criteria as art products do, namely being original, unique and authentic. (Karpik, 2010) The wine quality criteria seem to be interlinked and build on each other. Put concretely, wines in the higher price ranges still need to be pleasant to drink. Moreover, uniqueness and rareness of the most expensive wines build upon the typicity, complexity and longevity of wines. In addition, empirical evidence reveals that the individual criteria exhibit diminishing returns, meaning that they can only increase the price of a wine up to a certain point from which onwards other quality criteria are to be followed.

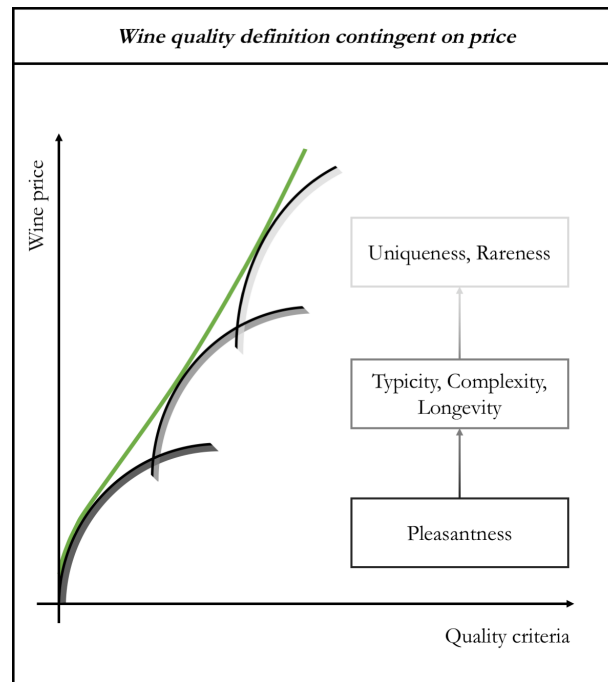


Figure 9 Diminishing marginal returns on price of wine quality drivers (Own illustration)

## 7.2.2 Wine styles and preferences

However, only the different and partially incompatible wine styles of different quality levels can fully uncover the link of the conceptualizations of reputation. Winemakers balance acidity levels and residual sugar content and abstain from using oak barrels in the maturing process for lower-quality wines. These vinification practices allow winemakers to use grapes of lower quality and thus enables lower production costs for these wines. Thereby, they can create less expensive wines that are undemanding to drink. This appears to appeal especially to inexperienced consumers. The stylistic of these lower-quality wines thus follows the taste preferences of the general public that lacks wine knowledge and experience.

In contrast, higher-quality wines are not specifically produced to be appealing to the average consumer's taste preferences. In the high-quality segments low grape yields on mineral soils, higher acidity levels, less residual sugar and the usage of oak barrels are commonly used practices. These practices allow winemakers to create complex and long-lasting wines that are typical for their terroir. These wines achieve a certain uniqueness as they are able to reflect the unique terroir in which the wines' grapes were grown. Winemakers assert that the resulting demanding taste pattern does not have to conform with and is often in contrast to the taste preferences of the average inexperienced consumer. In contrast, wine consumers that are experienced in wine appear to prefer those taste patterns. Otherwise they would not buy those wines. Existing research on wine appreciation confirms that only experienced individuals enjoy pricier wines more (Goldstein et al., 2008).

In summary, as wine quality rises the taste patterns of wine become more demanding. Hence, consumers inexperienced with wine will tend to prefer more undemanding wines, which are of lower quality. Conversely, consumers experienced with wine will tend to prefer more demanding wines, which are of

higher quality. In short, what interviewed winemakers define as high quality appears to align more with the taste preferences of experienced than inexperienced consumers (Figure 10)<sup>12</sup>.

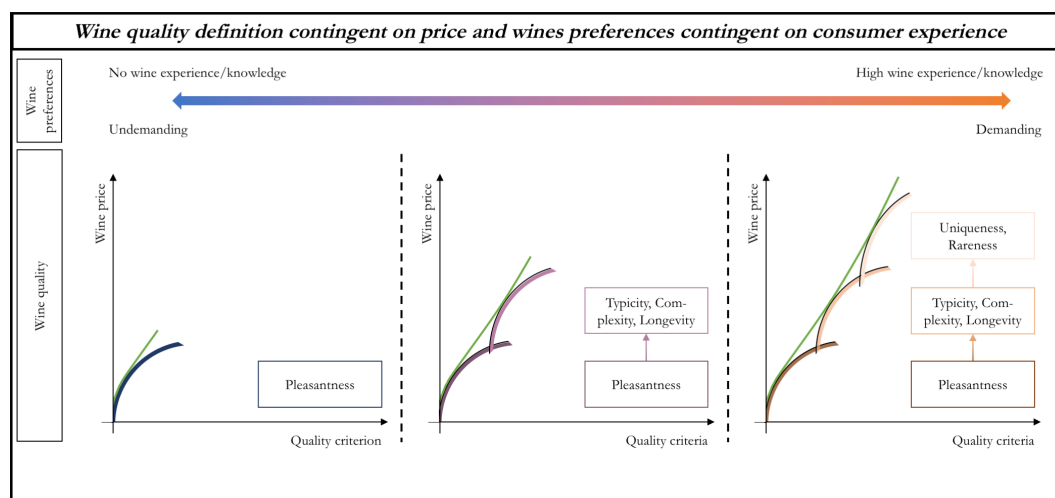


Figure 10 Wine quality definition and wine preferences (Own illustration)

Therefore, the higher the wine quality the smaller the potential customer base tends to be. Consequently, wines of high quality appear to be wines that can function as means of social distinction. Only experienced consumers possess the capital in terms of wine knowledge and linked habitus in terms of taste preferences that enable them to purchase and fully appreciate higher-quality wines. Accordingly, the empirics suggest that if winemakers want to raise their reputation they need to produce wines of higher quality. This provides support for Podolny's (1996) quality-based reputation. Moreover however, producing wines of higher quality also means producing wines in an economically disinterested fashion for a small and sophisticated customer segment. This provides evidence for Bourdieu's (1993) art-based reputation. One could also argue in line with Bourdieu (1996) that these higher-quality wines derive their value (i.e. market price) from their functioning as means of distinction. Ultimately, a wine quality definition that is contingent on price and corresponding taste preferences that are contingent on consumers' wine experience appear to link the two conceptualizations of reputation (Figure 11).

<sup>12</sup> Even though the figure depicts three distinct cases contingent on the level of a consumer's prior wine experience and knowledge, the proposed conceptualizations of quality should be understood as a continuous continuum.



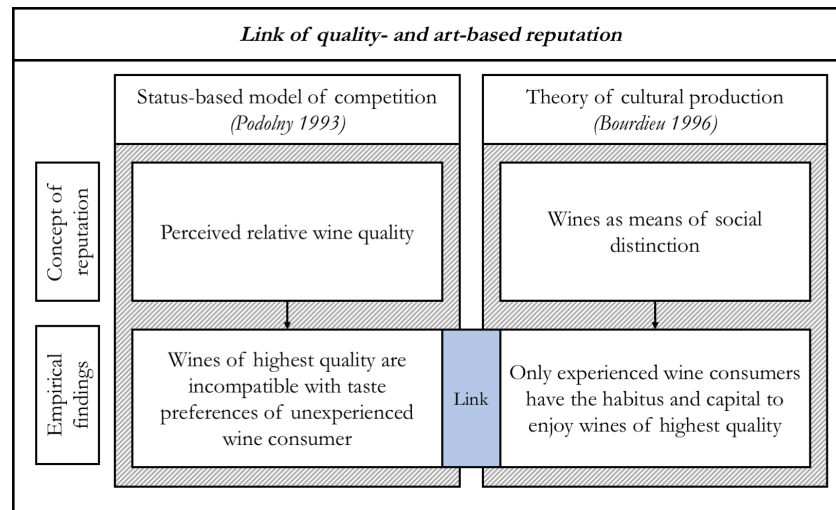


Figure 11 Link of quality- and art-based reputation (Own illustration)

Moreover, the incompatible wine styles for wines of different prices ranges suggests that wines from different price ranges are not merely products from one category, but rather products from different categories that belong to one product family. The comparison of low- and a high-priced wine appears to rather mirror the comparison of a compact car and an SUV, then the comparison of two SUVs from different brands.

However, the empirical material is to some extent in disagreement with Podolny's (1993) and Bourdieu's (1996) theoretical claims. Both researchers assert that winemakers would dilute their reputation if they would produce and sell both undemanding and demanding wines under one brand. However, many winemakers sell wines that are targeted for both customer groups under the same brand. Winemakers appear to use different brands only for low-priced wines. Many winemakers even claim that due to higher quantities sold most of their earnings are created with their least expensive and not their more expensive wines.

Subsequently, this thesis uncovers another intriguing question: winemakers seem to be aware of the importance of reputation. Moreover, winemakers seem to know how to build up a good reputation. So why are some winemakers better able to build up a reputation than others? This thesis will shed light on that question by examining in the next two sections in what practices winemakers engage in and what capital they utilize to construct their reputation.

## 7.3 Reputation moderators

The preceding section has established that a winemaker's reputation rests upon the quality of the wines produced by a winemaker. However, the theoretical model highlights that the winemaker's reputation efforts do not directly result in reputational gains as they are moderated by certain reputation moderators. Winemakers appears to shape and leverage these reputation moderators as well.

### 7.3.1 Time lag

Podolny (1993) cautions that reputation is of time lagging nature. Bourdieu (1996) further adds that winemakers can only monetize on reputation after a certain time period. The interviewees suggest in accordance with these theoretical claims that collective and individual reputation only arises from producing wines of constant high quality over years. Reputation in the wine industry thus appears to be of lagging and slow-moving nature. This finding provides support for another link towards Bourdieu's (1996) art-based conceptualization of reputation. According to Bourdieu (1996), winemakers need to appear economically

disinterested. This thesis argues that winemakers appear towards wine critics and consumers economically disinterested as they have to survive many years of low profit and consciously forgo on short-term profits to build up their reputation.

## 7.3.2 Reputation as perception

Podolny (1993) stresses that reputation as a second-order construct reflects the perceived relative quality and not the actual relative quality. Winemakers appear to bias these perceptions in their favor.

### 7.3.2.1 Storytelling

Empirical data has shown that winemakers especially during wine tasting engage in storytelling techniques. The winemaker appears to actively guide the customer's wine assessment to ultimately shape the customer's perception of the wine quality.

Higher quality wines ought to reflect the unique terroir in which its grapes were grown. Subsequently, winemakers focus on the nature and handwork aspects in their stories. Further architectural references visualize those narratives. In conclusion, this thesis argues that the desired sensory quality of a wine (being reflective of its terroir) is concretized by these stories.

### 7.3.2.2 Selection of high-end wines for reputation building

This thesis argues that wine critics through their similar habitus and capital compared to experienced wine consumers tend to prefer wines of higher quality. Winemakers appear to leverage the circumstance that they are free to choose which wines are to be tested in a wine guide. This means that instead of sending in the entire collection or wines from all price levels, winemakers tend to send in those wines which they believe will align with the taste preferences of the wine critics. Usually those tend to be a winemaker's high-end wines. Hence, the overall rating and thus reputation that a winery achieves in a wine guide can be biased upwards as it tends to depend on the higher-end wines of a winery.

This empirical finding provides to some extent an explanation how winemakers are able to sustain their reputation even though they also sell wines of lower quality that rather appeal to the mass market. Winemakers seem to be able to sustain their reputation as their wines of lower quality inform and shape the overall reputation of a winemaker to lesser extent than a winemaker's high-end wines. Moreover, renowned winemakers can leverage the resulting proceeds from selling lower quality wines to maintain and even raise the quality levels of their high-end wines. (Figure 12).

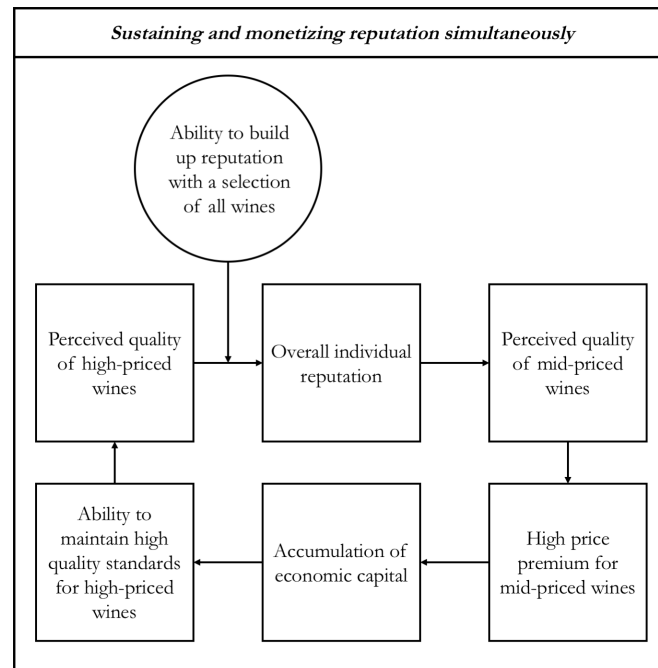


Figure 12 Sustaining and monetizing reputation simultaneously (Own illustration)

### 7.3.3 Ties and associations

Both Bourdieu (1996) and Podolny (1993) stress that winemakers can obtain reputation through association with other market actors of high(er) reputation. The interviews present ample of evidence of how winemakers leverage these ties.

#### 7.3.3.1 Ties to other market actors of reputation

Winemakers try to place their wines in sophisticated restaurants and specialized wine traders. These actors thereby help to make winemakers known among the targeted consumer base. In line with Bourdieu (1996) these actors appear to be able to consecrate wines thanks to their own reputation. Already established contacts to sommeliers help winemakers to get their wines listed in appropriate wine shops.

Secondly, empirical evidence underscores the role of wine critics and subsequently wine guides and competitions as gatekeepers and amplifiers of reputation. Winemakers highlight that they can gain access to wine critics through recommendations. Already established market actors can similar to restaurants boost the reputation of a winemaker through these recommendations by leveraging their accumulated reputation. Consequently, becoming listed in and recommended by a wine critic can then endow the winery with further reputation depending on the reputation that a certain wine critic holds.

Thirdly, many winemakers claim the importance and effectiveness of collective reputation as manifested in the reputation of a closed quality circle, loose winemaker associations or the wine region in which a winery is located in. Especially closed quality circles appear to offer an effective source of reputation. However, winemakers can only join these circles upon invitation which makes it necessary for winemakers to have already accumulated a certain amount of reputation beforehand. Despite the various differences among those sources of collective reputation all of them appear to depend on the aggregation of the individual reputations. Consequently, within those associations winemakers appear to engage in an ongoing exchange of experience and knowledge to foster and lift the individual quality levels and thereby the overall reputation.

#### 7.3.3.2 Strong ties to customers

Podolny (1993) further adds that embedded ties lead to a loose connection of actual quality and reputation as loyal consumers are more insensitive to quality changes of the winemakers. All winemakers report that they have built up and sustain strong connections to their customers. Based on Podolny (1993) this thesis asserts that these ties make it more difficult for wineries to move up in the reputation hierarchy. If the more reputable winemakers build up lasting relations with their customers, then those customers will be less likely to consider less renowned winemakers even though these have raised their quality levels. Moreover, as taste preferences of an individual customer changes only slowly, the existing customer base of a winery might actually not be in favor of a higher wine quality.

#### 7.3.4 Stochastic information dissemination

Lastly, Podolny (1993) cautions that not all wine quality result in proportionate reputation changes as information is stochastically disseminated. The nature of stochastic information dissemination gives winemakers another reason to (not) participate in wine guides and competitions. Winemakers assert that they focus on wine guides and competition with the biggest publication and consequently audience. Through the wide publication of the selected guides and competitions winemakers ensure that especially quality increases are communicated towards target audiences.

However, the aforementioned tactic of consciously selecting only high-end wines for wine guides and competitions provides also empirical evidence for how winemakers exploit the stochastic nature of information dissemination to their advantage.

### 7.4 Capital usage

Bourdieu (1986) conceptualizes that actors in a field utilize four forms of capital: economic, social, cultural and symbolic (i.e. reputation) capital. In the theoretical model economic and social capital were both marked as imperative to build up a winery's reputation. The empirical data largely finds support for those theoretical claims. Together with the proceeding chapters the analysis of capital usage can examine why some winemakers are more able than other to build up their reputation.

#### 7.4.1 Economic capital

Winemakers stress that the years of reputation building are years of low profitability. As winemakers can only monetize on their reputation building activities after years, winemakers need financial stamina to build up their reputation.

Firstly, grapes for high quality wines cannot be grown on every vineyard. Vineyards that fulfill the desired exposition and soil properties are rare and thus expensive. Moreover, vineyard practices common for high quality wines such as harvesting by hand are also costlier. Harvesting by hand is especially important in years of climate conditions that are unfavorable to producing high quality grapes. Unfavorable climatic conditions can lead to a low grape quality level. In these years the winemakers require additional financial stamina. Only if the winery discards all low-quality grapes and thereby sustains the wine quality will it not dilute its quality and thus its reputation. Hence, producing wines of constant high quality requires financial stamina. Moreover, storytelling techniques can be supported by investing in winery premises that make use of natural materials in the exterior paneling or the interior design.

### 7.4.2 Social capital

However, also social capital appears to be of importance. In some wine regions the supply of the aforementioned type of vineyards is so rare that winemakers can only obtain those if they leverage their social network. Ties endow a winemaker with an important time and knowledge advantage and the possibility of pooling financial resources.

Moreover, ties to other wineries help winemakers to acquire experience and knowledge. Exchanging experience and knowledge especially appears to benefit a winemaker's vineyard and vinification methods.

Lastly, winemakers stress the importance of being connected on a personal level with other reputable market actors. For example, these personal contacts help winemakers for example to get listed in sophisticated restaurants or to get recognized by wine critics. Social capital thus unlocks the door for other reputation building practices.

### 7.4.3 Cultural capital

Winemakers do highlight the aforementioned exchange of experience and knowledge among peers as an important source for innovations in vineyard and vinification practices. Hence, cultural capital appears to be critical which winemakers can gain thanks to their social capital.

### 7.4.4 Symbolic capital

So far, this thesis has understood a winery's reputation as it being recognized and known among consumers and critics. However, the empirical data reveals that winemakers, or to be more precise grape growers, also enjoy a certain level of reputation among their peers. This "grape grower" reputation depends on how diligently and ecologically friendly a winemaker works in the vineyards. Winemakers of high grape grower reputation exhibit better access to vineyard of the described type. Also Podolny (1993) conceptualizes that firms of higher reputation will enjoy cost benefits in the production of their high-quality goods. However, these cost advantages arise from reputation among the firm's customers based on the firm's product quality.

## 8 Conclusion

*This concluding chapter will firstly summarize the findings on the foundation of a winemaker's reputation, reputation moderators and capital usage and thereby address the overall research question (8.1). The final section shall discuss the relevance of the findings beyond the object of this case study, namely the German wine industry (8.2).*

### 8.1 The quality-price paradox revisited

This thesis began its research journey with a surprising paradox: existing research had failed to establish a statistically significant causal link between sensory quality of a wine and its price. Subsequently, this research set out to shed light on the following research question:

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*How can German premium winemakers charge premium prices?*

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Constructing a theoretical framework from economic sociology, the winemaker's reputation appeared to be the key variable to be examined in order to answer the overall research question. So how do the presented empirical findings help us to understand the wine quality-price paradox?

In accordance with prior research this thesis suggests that a winemaker's reputation is a key driver in the price formation process in the wine market (Figure 13, A). For instance, winemakers can sell substantial quantities of mid-priced wines that are sometimes not even produced by the winemakers themselves at a significant price premium by monetizing their accumulated reputation. In contrast to the theoretical framework, winemakers thus appear to be able to monetize and simultaneously sustain their accumulation as they selectively rely on high-end wines for reputation building efforts.

The empirical findings further suggest that the supremacy of reputation arises from two interlinked foundations (Figure 13, B). Reputation in the wine industry appears to be a signal not only for a winemaker's past ability to produce wines of high sensory quality but simultaneously also for a winemaker's past ability to produce wines that can function as means of social distinction.

This thesis argues that a multidimensional conceptualization of wine quality contingent on price and corresponding taste preferences contingent on consumers' wine experience link these different understandings of reputation. Put concretely, wines from different quality levels exhibit different and incompatible taste patterns. Moreover, these different wine taste patterns are preferred by different customer groups based on their prior wine experience. The general public which is inexperienced with wine tends to prefer the undemanding taste patterns from lower quality categories. In contrast, more experienced wine consumers tend to prefer the demanding taste patterns from higher quality categories. Consequently, an experienced wine consumer can leverage her taste preferences for pricier wines as manifested in her appreciation of these wines as means of social distinction. In short, wines of higher quality can function as means of social distinction endowing them with higher value. These findings also suggest that the established wine quality definition predominantly aligns with the preferences of a smaller group of sophisticated wine consumers. This provides an indication why previous studies have failed to establish a solid causal link between wine quality assessments and price.

Ultimately, reputation reflects a winemaker's past actions and thus does not come at zero cost. In line with Bourdieu (1996), this thesis argues that the price of a bottle of wine reflects not only its actual production costs but also the production costs of reputation building activities that winemakers accrued in prior years.

The costs of reputation building activities arises from two sources: firstly, winemakers use their capital to produce wines of high quality, which lays the foundation for their reputation. Secondly, the effectiveness of

winemakers' efforts in raising their reputation by producing wines of high quality is influenced by reputation moderators (Figure 13, C). Hence, winemakers also utilize their capital to shape and leverage these. For instance, winemakers try to produce wines of consistently high quality over years to overcome the time lagging nature of reputation. They also use storytelling techniques and purposeful selection of their high-end wines to bias the perceived quality of their wines upwards. Besides, winemakers leverage wine critics with a wide audience to ensure that, despite the stochastic nature of information dissemination, all actual quality changes are actually noticed by the target audience. Lastly, winemakers exploit embedded ties in their reputation building activities by associating themselves with other market actors of reputation such as sophisticated restaurants, specialized wine traders and formal and informal winemaker associations.

Consequently, the stock of capital with which a winemaker is endowed appears to enable the winemaker to sustain reputation building practices over years and eventually enables the winemaker to monetize the accumulated reputation by charging a price premium. Economic and social capital appear to be especially important. In addition, knowledge and experience from peers and grape grower symbolic capital, defined as the reputation of a winemaker amongst his or her peers, also play a role (Figure 13, D).

## 8.2 Beyond the case of the German wine industry

The proposed conceptualization of wine quality and corresponding taste preferences lead this thesis to one further, more general suggestions: wine quality appears to follow "objective" sensory criteria. However, in line with Bourdieu (1996) this thesis provides evidence that these criteria, and consequently an individual's preference for these criteria, are socially constructed. This thesis proposes that producers and consumers in the wine industry shape and influence quality criteria in such a way that wine can be used as a means of social distinction. However, this process appears to take place on a hidden level as it is concealed by seemingly objective discussions about what should constitute wine quality. Hence, with reference to Veblen (1899) and Bourdieu (1996), this thesis expects wine quality criteria to change whenever they no longer allow wine to function as a means of social distinction. This could for example be the case when inexperienced consumers also started to prefer typical, long-lasting and complex wines. Put more generally, quality criteria and the linked taste preferences arise from a discourse in which market actors engage in to shape quality criteria in such a way that the product in question can be used as a means of social distinction by some market actors.

This process of social construction of quality criteria could also be applied to other food markets in which enormous price ranges within one product category are justified by seemingly objective quality criteria. Why is it, for example, that single-origin Arabica coffee is so much more expensive than the usual coffee blends sold in supermarkets (Fischer, 2017)? Surely, one could argue that single-origin Arabica coffees are of higher quality, meaning that they taste better (Daviron & Ponte, 2005). At this point the theorized process of social construction of quality criteria and preferences can provide an understanding of how these seemingly objective quality criteria came into existence.

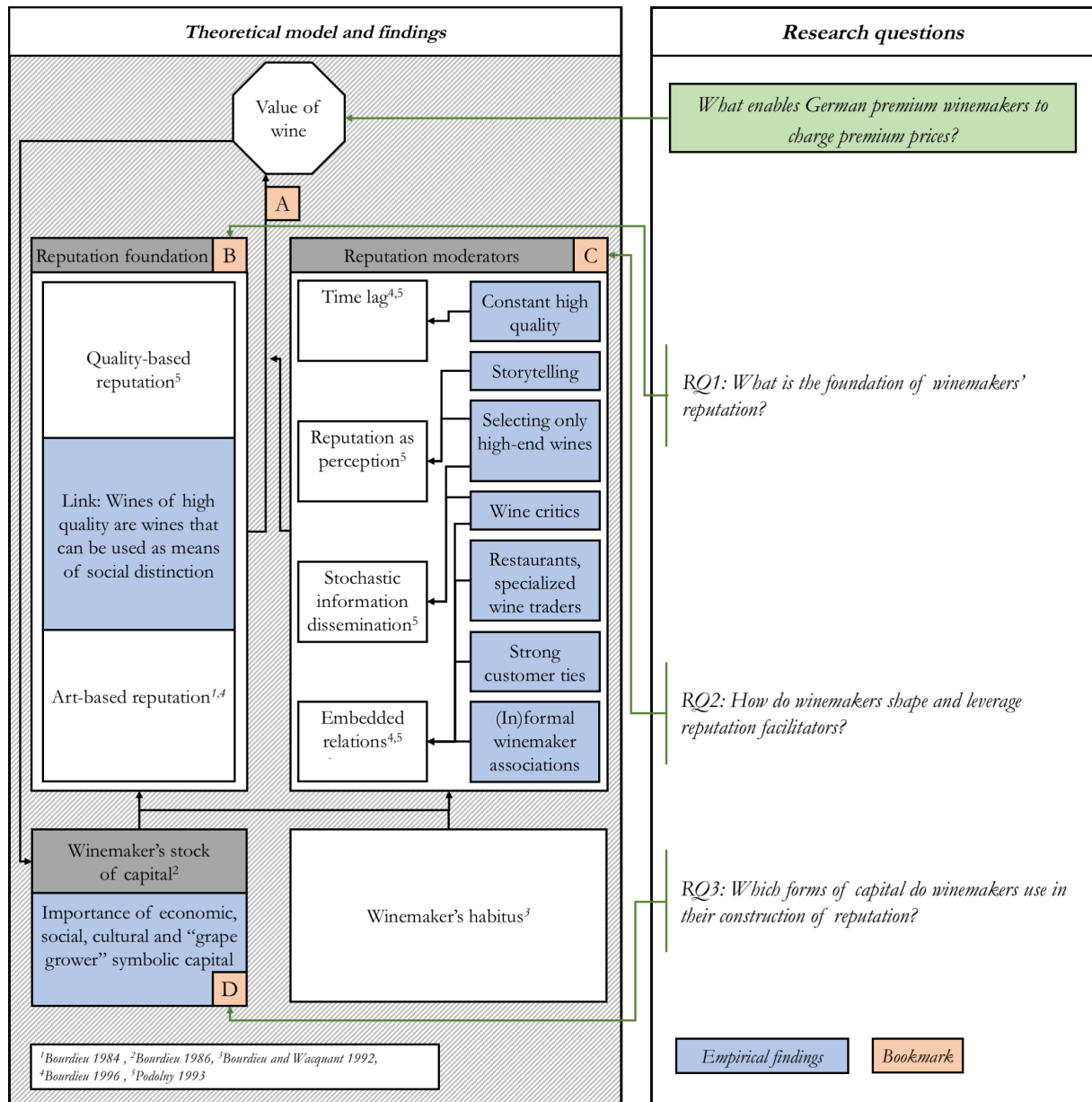


Figure 13 Theoretical model and findings (Own illustration)



## 9 Discussion

*This final chapter will conclude this thesis by highlighting its main theoretical (9.1) and managerial contributions (9.2). This chapter will also outline the limitations of this thesis (9.3) and shed light on avenues for future research (9.4).*

### 9.1 Theoretical contributions

Previous studies on the price-quality paradox have been identified as limited. Little had actually been done to contribute to a thorough understanding of what actually constitutes a winemaker's reputation. Moreover, research was lacking on the origin of consumer preferences and the linked concept of wine quality. By combining different socio-economic theories from Bourdieu (1996) and Podolny (1993) this research has examined the foundation for a winemaker's reputation and the role of reputation moderators. Moreover, by outlining what types of capitals are required in these practices, this thesis also contributes to an understanding of why some winemakers are better able to foster their reputation which allows them to charge higher prices.

This examination of reputation foundations and moderators has enabled this thesis to engage in theory building: firstly, this thesis was able to define wine quality as a multidimensional concept contingent on price and wine consumer preferences as contingent on wine experience. These new theoretical constructs enabled this thesis to establish that wines of higher quality are wines that also function as means of social distinction. Ultimately, this has fostered a more thorough understanding of a winemaker's reputation.

Secondly, this thesis has uncovered that winemakers can sustain and monetize their accumulated reputation simultaneously. Theory had argued that winemakers would dilute their reputation if they would monetize it by selling products of lower quality. However, this research showed that certain reputation moderators allow winemakers to build up and sustain their reputation with a selection of their high-end wines. Consequently, this thesis argues that a winemaker's reputation should not be understood as the average past wine quality, but as the average past quality of selected high-end wines.

### 9.2 Practical contributions

This study offers practical advice for wine producers as well as consumers. Firstly, wine entrepreneurs should be advised to raise sufficient funds to be able to sustain the necessary, but capital-intensive reputation building efforts in the first years. Moreover, this research has also highlighted that wine entrepreneurs should build up peer contacts who will enable them to benefit from an exchange of knowledge and experience.

Secondly, established winemakers who produce high quality wines but have not benefited from a reputation accumulation can leverage reputation moderators. For example, winemakers can use storytelling techniques supported by the architectural cues to raise the perceived quality of their wines. Moreover, winemakers should try to build up ties towards sophisticated restaurants, specialized wine traders and reputable winemaker associations to foster their own reputation.

Lastly, winemakers who have achieved a high level of reputation should not shy away from monetizing their accumulated reputation. Reputable winemakers can extend their product line into lower price segments to reap the rewards of their reputation building efforts. However, to sustain their reputation, winemakers should continue to rely on their high-end wines whose quality level can be further raised with the proceeds from the selling of low-end wines at a price premium. In the words of winemaker B this thesis asserts that winemakers should understand their reputation as a bank account into which they can make investments and will be rewarded after time.

Lastly, this study also holds some relevance for wine consumers. The thesis has argued that taste preferences differ among consumer based on their prior wine knowledge and experience. Hence, wine guides might actually not provide the most suitable recommendations for inexperienced wine consumers.

### 9.3 Limitations of contributions

This study is of an explorative nature and hence exhibits limits in its contributions. Further research is needed to foster the transferability of this study's findings. Much of the central quality definition is based on the concept of *terroir*. This concept, originating in France, enjoys a particular importance in the Old Wine World (Smart, 2002). Hence, this thesis appears to be of particular relevance for examining the quality-price paradox there. However, in the New Wine World, in which the concept of *terroir* is not so commonly used, further research and further refinement of the proposed theoretical model appear to be necessary to foster the transferability of this study's findings. Furthermore, this study has not incorporated the perspective of winemakers focusing on low-priced wines.

Moreover, this study centered on the wine price formation process from the winemaker's perspective. However, market prices reflect the actions of multiple market actors. Especially as this study has claimed that wines with increasing price function as means of social distinction further research from the consumer's perspective is required to support the transferability of the findings. Further research should also include the perspectives of wine critics or wine traders.

### 9.4 Future research

This study has uncovered diverse opportunities for future research. Firstly, this thesis argues that high quality wine can function as a means of social distinction. This suggests, that the underlying quality criteria are shaped through social discourse. This provides an interesting venture point for examining how certain wine trends arise and diffuse in the wine market. The study has provided some indications that more reputable market actors such as renowned French wine regions are key stakeholders in this discourse. Such a study should also incorporate the consumer's influence on wine quality criteria to reflective the discursive nature of this process.

Lastly, the study has revealed that winemakers are highly embedded market actors. Within the context of the relations to peers, winemakers even appear to accumulate a special type of reputation. Economic sociologists, such as Granovetter (1985), have theorized and applied the concept of embeddedness for many years now. However, up till this point a cohesive study on the embeddedness of winemakers is still missing.

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# 11 Appendix

## 11.1 List of interviewees

<i>Interviewee information</i>				<i>Interview information</i>			
<i>Pseudonym</i>	<i>Wine region</i>	<i>Size*</i>	<i>Price range**</i>	<i>Primary interview</i>		<i>Follow-Up interview</i>	
				<i>Date</i>	<i>Duration (min)</i>	<i>Date</i>	<i>Duration (min)</i>
A	Baden	S	●	19.03.18	40	-	-
B	Rheingau	XL	●	19.03.18	40	-	-
C	Rheinhessen	XL	◐	19.03.18	39	02.05.18	18
D	Mosel	M	◐	20.03.18	48	-	-
E	Mosel	L	●	20.03.18	44	-	-
F	Mosel	L	◐	20.03.18	55	-	-
G	Mosel	S	◐	20.03.18	48	-	-
F	Mosel	L	●	21.03.18	44	-	-
I	Mosel	S	◐	21.03.18	51	-	-
J	Mosel	XL	○	22.03.18	40	-	-
K	Mosel	L	●	22.03.18	50	-	-
L	Baden	L	◐	23.03.18	43	-	-
M	Baden	XL	○	23.03.18	41	-	-
N	Mosel	M	◐	23.03.18	51	-	-
O	Baden	XL	◐	23.03.18	33	-	-
P	Baden	S	●	23.03.18	36	-	-
Q	Mosel	L	●	26.03.18	53	02.05.18	14
R	Baden	XL	●	27.03.18	46	-	-
S	Baden	L	◐	28.03.18	51	03.05.18	19
T	Ahr	M	◐	24.04.18	54	03.05.18	17

Information retrieved from interviews

Legend

\*Size classification:

<5h small (S)

>5h/<10h medium (M)

>10h/<20h large (L)

>20h extra-large (XL)

\*\* Price:

Predominantly mid-priced ○

Mid- and high-priced ◐

Predominantly high-priced ●

## 11.2 Description of included wine regions

<i>Abr</i>	<i>Baden</i>	<i>Mosel</i>
560 ha	16.000 ha	8.800 ha
Predominantly red wines (especially Pinot Noir)	Balance of red and white wines	Predominantly white wines (especially Riesling)
One of the smallest German wine regions	Warmest German wine region	Known for its steep vineyards
<i>Rheinbessen</i>	<i>Rheingau</i>	
26.490 ha	3.100 ha	
Predominantly wide variety of white wines	Predominantly white wines (especially Riesling)	
One of the biggest German wine regions	Closely connected to metropole region Frankfurt	

Information compiled from Hutter (2016) and Priewe (2005)

## 11.3 Sample interview guide

### 1. Section: Introduction

- Describing purpose of the study
- Explaining structure of the interview
- Warranting full anonymity

### 2. Section: Description of winery

- Please describe your winery according to the following criteria
  - Size
  - Price Range
  - Value chain activities: In-/outsourcing of grape growing, vinification or sales and distribution
- Please describe your role within the winery

### 3. Section: Price driver

- To what extent do you think that the following factors influence the price that you can charge?
  - Wine quality
  - Reputation
  - Other factors
- How do these aforementioned factors influence wine price?

### 4. Section: Influencing price driver

- How do you influence these price drivers using the following means?
  - Business assets (economic capital)
  - Networks (social capital)
  - Knowledge (cultural capital)
  - Reputation (symbolic capital)