

The Napa Valley Wine Industry

The Napa Valley Wine Industry:

The Organization of Excellence

By

Ian Malcolm Taplin

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To the memory of my parents,
without whose support and encouragement early in my life,
none of what follows would have been possible

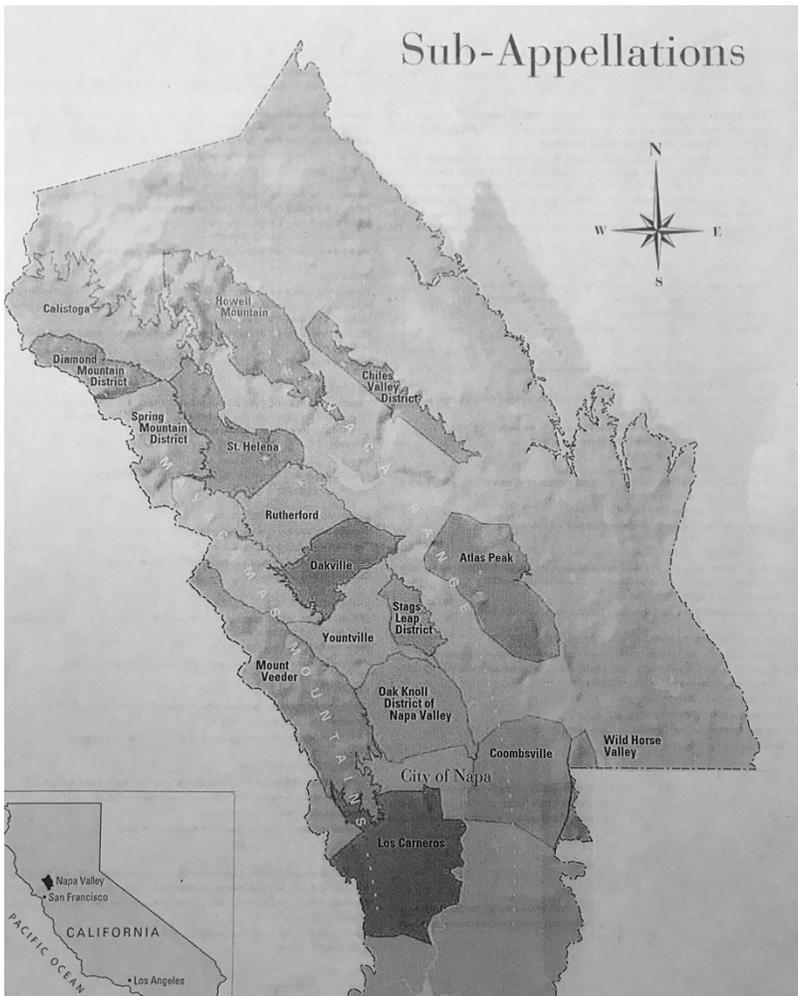
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Fig. 1.1. Napa appellations and sub-appellations



PREFACE

I started researching the Napa wine industry in 2005 in a somewhat serendipitous fashion. I was talking with a student about my new research project investigating the rise of the wine industry in North Carolina, where I'm currently based. I told her how I was intrigued by events in that state which had recently generated some initial successes after more than a century of failure. Specifically, I wanted to know how a market for wine emerged, what institutional forces were at play, and who the individuals responsible for this growth that started in the 1970s were. I told her that the history fascinated me, since many residents of North Carolina had traditionally demonstrated enthusiasm and efficiency in making alcohol, but had not fared well with wine. In the case of wine, it became obvious that the requisite technical skills and scientific knowledge were conspicuously absent in the past, and this would had not been rectified until late in the twentieth century. Having briefly relayed this story to her, the student simply replied "that sounds like Napa. You should talk with my dad, as he runs a famous winery there." And that is exactly what I did, contacting him and journeying to Napa to discuss the myriad issues that had framed the wine industry in that region and California since the beginning of the nineteenth century. That person was the late Tom Shelton, and we had a number of fascinating conversations. He also introduced me to other winery owners and winemakers who were gracious enough to share their time talking with me. This book is the result of those early discussions and the numerous other conversations that ensued over the years.

Rather than provide a rich narrative history of Napa which other authors have admirably done, and whose work I have used in my research, I wanted to do something slightly different. Specifically I sought to place this history in a theoretical framework that would enable me to discern patterns and processes. How did a market for wine evolve when it did? Which individuals brought valuable resources to start wineries? What institutional forces molded its embryonic structure? Which political events constrained it for several decades? I attempted to trace dynamic capabilities amongst firms and how they engendered industry growth when becoming part of interactions that fostered collective organizational learning. From this, I could discern how informal knowledge and formal exchange mechanisms morphed into structured relationships between firms, eventually leading to

differentiation, albeit in a cooperative arena that allowed crucial tacit information to be disseminated.

We are familiar with the economics of agglomeration and the beneficial effects of cluster density, but there appears to be a different dynamic at work here, especially after the 1960s when the industry re-emerged following Prohibition. Efficient market theories presume rational behavior and transparency that guide economic growth, but information asymmetries and very different resource backgrounds by industry entrants can distort such efficiencies. This was evidently the case in the history of the Napa wine industry. A tremendous amount of cooperation between firms was almost a pre-condition for the region's eventual success – a very different proposition for the presumption of competitive rivalries. What became clear was how a determined and purposeful effort by many different actors to organize wine production around goals of quality replaced earlier efforts to build the industry as a commodity product. But quality would only work if consumers demanded it, and it is only recently that a wine culture per se has emerged in the United States. Some Americans have always drunk fine wine, but generally that meant Old World wines. What persuaded them to shift their allegiances and try wine from their own country? The answer, after wineries were able to consistently produce fine wine, was to have important critics affirm its quality, thus removing some of the uncertainty that consumers faced when buying an ephemeral product. Increased discretionary incomes meant more consumers could afford the higher prices that Napa wineries were charging – itself a pricing strategy designed to confer quality and status. Like many positional goods, an expensive wine was a mark of status; the better Napa wines became, the higher the price charged for them. A high price signified quality, and limited availability translated into a luxury product.

Old World wines took centuries to accumulate the prestige that we now confer upon them, and they underwent numerous attempts to order production around classifications that formalized quality. Napa has managed to achieve this status in a much shorter time. It too has relied upon systemic activities. Key actors, notably since Prohibition, have purposefully organized the industry in ways that capitalized upon endogenous features as well as their own resource capabilities (capital, skills, networks etc.), in doing so charting a course toward excellence. Collectively, they have been able to create an exceptional product, structure the market to protect their brand identity, and manage demand from a consumer base slowly acquiring sophisticated oenological preferences. The fact that they have built a stellar reputation in a fairly short time is quite remarkable.

A large number of close friends, whose names are too numerous to mention, have shared their insights on wine with me, and from whose comments I have benefitted. Thank you. When I first went to Napa, Russ Weis and Doug Shafer proved invaluable as sources of information, and have continued to be people I turn to when I have questions. Both have a truly remarkable understanding of the industry in its various nuanced forms. In recent years, Delia Viader and Tor Kenward have similarly been most edifying. Bill Harlan read and commented on the entire manuscript, for which I owe him a huge debt of gratitude. As with the others, he would throw out ideas and push me to probe areas that I hadn't initially considered important.

In the North Carolina wine industry, I continue to benefit from a wealth of information provided by numerous winery owners who I have come to know over the years. In this group I am particularly grateful to Mark Friszolowski, Chuck Johnson, Alan Ward, Jay Raffaldini, and J. W. Ray – friends who have always been willing to share their repertoire of knowledge on wine production. To them and the others, my thanks. In Bordeaux, my friends and colleagues Stephane Ouvrard and Hervé Remaud at Kedge Business School where I have taught have always been inspirational to talk with. Their knowledge of the French wine industry is truly impressive, and I have learned much from them – along with enjoying many excellent bottles of wine!

Finally, thanks to Cindy, who has listened to more discussions about wine than she would probably have liked, but without whom I'm not sure I could have accomplished this book, and many other things.

INTRODUCTION

I've been researching and writing about wine for almost two decades – specifically, how segments of the industry are organized, how they have changed, and what sorts of external forces have an impact upon production and consumption. When people discover this interest of mine I'm no longer surprised that they ask me what my favorite wine is and whether I can recommend one to them. These are two questions that I often find difficult to answer. Not knowing much about a person and when and how much wine they drink renders any comment I make possibly inappropriate. I sometimes ask, is it for special occasions, or a picnic, or an evening meal? Do they drink alone or mainly with friends? Context can matter. Furthermore, what I like might not be what someone else prefers. Taste is personal, whether in clothes, cars, films, leisure, or wine. For example, many of my close friends love Barolo, the majestic Italian wine that, quite frankly, I just don't get! I've tried it many times, and each occasion elicits the same indifferent response. They seem shocked when I tell them this, since they assume that someone with such knowledge about the industry would not make such an audacious statement. They ask if it's because I don't like Nebbiolo (the signature grape of Barolo). When I say I generally do like it, their response is that I probably have just not had a really good Barolo (read – expensive!). They are genuinely puzzled, and no matter how much I demur to their obviously superior palates, several start on a mission to provide me with ever more expensive and aged vintages in the hope that I will eventually have a vinous epiphany and become a convert. It has yet to work, but I appreciate the friendly disdain that continues unabated.

I have another friend who thinks Rhone wines surpass any others on the planet and is generally dismissive of Napa Cabernets because he thinks them too rich, oaky, and generally overpriced (which they can be). I respect his knowledge, and always enjoy tasting what he proffers when we get together (he's also an excellent cook, so the epicurean delights perfectly complement the wine – a topic I shall return to shortly). He is vastly more knowledgeable than me about wine, and he can discern all sorts of flavors that I struggle to identify. Nonetheless, from time to time I'm brave enough to disagree with some of his ideas, and he graciously accepts my criticism, although he did take issue the other week when I referred to a rare southern

Italian wine that he cherished as tasting like a cherry smoothie! Such are the conundrums of sharing one's thoughts with unabashed honesty!

When it comes to recommending wines to others, similar problems surface. When a person asks if such and such is a good wine, my response to them is often to say, "do you like it?" If the answer is yes, then I suggest that such a wine clearly satisfies their tastes, and the question of whether or not it is good is superfluous. As long as it is not flawed (and most people will recognize this immediately), then subjective perceptions should not be trivialized, and they should continue to enjoy it. By all means I encourage them to experiment with other wines that might be similar and thus expand their horizon, but to also be confident in what they like rather than having their taste dictated by others. For reassurance, I remind them that in clothing we have our own style, and while it is certainly influenced by others, ultimately it is what we feel most comfortable in. Do we always look good in what we wear? Possibly not. But if we're comfortable with our attire, despite the possible lack of sartorial elegance, we engage with the world regardless. Routines beget confidence.

The purpose of the above stories is to see wine as a diversified and differentiated product that can meet many needs and be subject to nuanced interpretations. It is a beverage that can be a simple drink that aids thirst as well as an iconic product that is quintessentially the epitome of excellence. Some people pride themselves on their knowledge and expertise in the latter, while others are merely in search of a decent complement to a meal. Others enjoy a glass of crisp white wine at the end of a hot summer day, or perhaps a bold red by the fire on a cold winter's evening. Their motivation and choice can vary dramatically. Many lack any pretension and willingly defer to others when seeking advice on wine. Often, they have discerned what they like and are confident buying it, even possibly extolling its virtues to their friends. In a recent visit to Costco I watched an elderly couple pick up a six pack of Apothic Red (\$8.99 a bottle for a mass-produced red blend), and overheard the woman say how much she liked this wine, while her husband added that it is cheap. One aisle over, a young couple placed two bottles of Dom Perignon vintage Champagne (\$149.99 a bottle) in their cart, commenting that it was a good buy and would be perfect for the celebration. They then added a six pack of a generic New Zealand Sauvignon Blanc (\$9.99 a bottle) to their cart. I didn't hear what they said when picking the latter, but I must admit that my curiosity was piqued at such a combination of wines at opposite price points. Whatever the circumstances, these examples reveal how different people approach wine buying from varying

perspectives, with a multiplicity of intentions, and, regardless of their wine knowledge, appear reasonably comfortable with their purchases.

In each of the above scenarios, it is individuals who make the decision, whether through self-evaluation or at the behest of critics and experts whose opinions can inform as well as tyrannize. But many of us continue to feel insecure when it comes to buying or choosing a wine. There's so much out there and, making a choice solely on the basis of a label (which in fact many are known to do) is somewhat fatuous, to say the least. For that reason, people look to outside experts to inform or validate a purchase. Such people can demystify wine, and if reliable can be a credible information source. For example, in an independently owned wine shop one might solicit recommendations from the owner whose opinion one trusts, since they have every incentive to understand the needs of what might be a repeat customer. There is such a shop in each of the towns that I live (Winston-Salem, NC and Cowes, Isle of Wight, England). In both cases, I have come to know the owners, and they make recommendations based upon what they know I like. They have been remarkably accurate in their suggestions, even when I might express an initial mild skepticism at a particular bottle.

For many people who seek out a bottle or bottles of wine, their destination is probably the local supermarket. They might know exactly what they are looking for, but if not, with less personalized attention, they are more likely to rely upon the descriptor tag that indicates "scores" awarded to a wine. If this influences their choice they are deferring again, but this time to an anonymous expert opinion.

From the above we can see that wine is a simultaneously complex and simple beverage that appeals to different people at different times, and in varying circumstances. It assumes an important role in culinary events, rituals, and celebrations, and has been an intrinsic part of Western culture for millennia. Stripped of pretension, it can constitute a mere commodity. In this case, it is something routinely drunk with meals by a large number of people – essentially a relatively generic product. But it can also possess quality characteristics that transcend the limitations of a mass-produced item. Here might be a wine of distinctive and refined quality, one that has an aura of craftlike perfection. In such elevated realms, it is the expression of unique characteristics and levels of skills that can eventually endow it with cult-like status. Then it becomes the apex of excellence and uniqueness, a testament to an obsession with perfection by those with the dedication and resources to sustain such a pursuit. Such products are often rare and generally expensive, drunk on special occasions, or on a regular

basis by the very wealthy. To all extents and purposes, such wine is the quintessential luxury product.¹

So, wine can be excellent, good, average, or indistinct, and possibly bad. History is replete with examples of each, especially the latter when, in early times, people struggled to understand the basic chemistry, how to mitigate flaws, and what sort of storage would best preserve the finished product. Wine did not travel well or keep for very long, so was generally consumed close to where it was made and quite soon after it was produced. Much of wine's long history fits precisely this description. And yet, even then, there have been some wines that have risen to the status of excellence, becoming well known, and generally located in regions that are now synonymous with fine wine (for example, Bordeaux, Burgundy, Tuscany, and Portugal with Port). Such reputations have been centuries in the making, with much trial and error by the producers before they learned which specific areas grow the best grapes, how to mitigate all the flaws, when to harvest, how to best ferment, what storage works best, and what container is the most resilient. Some of this was trial and error, but also the result of purposive strategies once quality benchmarks were recognized. Success was often the result of specialized knowledge, technical innovations, and individuals with resources such as time or capital, who had the patience and dedication to create a quality product. As these processes evolved, a *de facto* and eventually formal governance framework that ordered the marketplace became established. The latter is important because wine's global success is intertwined with the growth of a market which, together with increased trade and changing consumption patterns, is a crucial part of wine's evolving history.²

Wine as a Social and Cultural Product

Wine has an extensive and storied history. It has brought pleasure to many, but also pain to some. It has soothed the senses, heightened congeniality, and diminished woes. It was and continues to be a balm that calms nerves while exacerbating conviviality. It brings people together in communities, and for many cultures has become an integral part of culinary life, the perfect complement to a meal. It is a shared item, reinforcing bonds of friendship and kinship. Moreover, in societies where its longstanding history has endowed it with cultural significance, people don't necessarily talk about the wine but see it as a beverage that aids conversation. The Greeks famously used wines in their symposium (the Greek word *symposion* means "drinking together") where upper-class men gathered

around a meal and discussed sundry items, some of elevated importance, while others were mere gossip.³ While such activities were institutionalized as part of elite Greek life, wine consumption (presumably of lesser quality if not quantity) also occurred in normal homes and taverns by the common folk, who presumably also saw it as an aide to both digestion and conversation.

Rich and poor alike implicitly recognized wine's cultural and moral valence, and thus continued their bibulous ways without a second thought. They understood wine without intellectualizing it. It became a "taken for granted" beverage, infinitely preferable to water, which was often of dubious provenance and non-potable. Wine's place in such societies thus became firmly established, the result of centuries-old tradition and widespread usage.

Over the ages, wine also acquired a central role in rituals and celebratory feasts. It was a beverage that provided the focus for an event, the consummate symbolic act of drinking that reinforced one's commitment to a belief or ideology. In such instances, wine's role was more than a mere drink. It was a crucial part of an event, cherished for its ability to evoke complex feelings and sentiments. It sustained continuity in communities where rituals linked the past with the present. As such, it was often intricately linked with religion when consumption was equated with the attainment of spirituality. Such events elevated wine to a privileged status and prompted the introduction of quality mandates that would ensure the beverage possessed the integrity appropriate to the occasion. These concerns would come to noticeable fruition centuries later when medieval monks devoted part of their agricultural pursuits to grape growing and wine making (more on this later).

In countries with a more recent history of wine consumption, such entrenched cultural practices have been less common. And yet, when wine drinking did increase it gradually acquired sociocultural significance among certain groups. Often inspired by wine-drinking immigrants, wine consumption would eventually spread to broader sections of society, embraced by many for its aid to sociability. While product uncertainty among new consumers might still confuse, and purchasing confidence is often plagued by a lack of knowledge regarding wine varietals, this appears to have not deterred people from trying wine and developing an opinion on it. To give a coherent expression of their taste preferences other than sweet or dry, or red or white, might be difficult for many. But this doesn't detract from their enjoyment of a beverage that can satisfy a multiplicity of

individual needs. For them, wine might lack the cultural imperatives. Yet this leaves them with an uncluttered imagination that can liberate their selection, and thus experimentation. They drink wine with friends and at meals, exchanging opinions, and generally the more they drink the more gregarious they become. In fact, the essence of sociability that is central to wine's consumption remains a crucial component of its enthusiastic embrace by new generations of drinkers.

Wine is thus a cultural product, its ubiquity framing centuries of consumption by ordinary people, nobles, and religious groups alike. But it is also an agricultural product with economic significance that has rendered many small communities viable. For people in such communities, the annual harvest was both a reward for their labors and the affirmation of community spirit. In evolving wine-producing areas, the annual calendar highlighted key agricultural events, and associated ceremonies further cemented the beverage's importance, both socially and economically. Production skills were noted, techniques learned and embellished upon, and certain individuals recognized for the quality of their product. Winemaking as an occupational specialty (*vignerons*, as the French termed such people) conferred status upon individuals who in the past had all too often relied on trial and error to make wine. Now they were becoming a constituent part of a network that progressively institutionalized a structure and organizational framework for such activity. Production and consumption became intertwined in narratives that highlighted geographical specificity, market formation, and eventually institutional coordination. Trade and commerce made wine profitable for some, while for others it provided a desirable product hitherto unavailable in areas where grapes could not be grown. Wine thus became an economic category that was crucial to many rural communities, further consolidating its social significance and cultural centrality, as well as prioritizing it as a value-added, differentiated product that transcended a mere commodity.

A Brief Historical Background

It is unambiguously clear when examining wine history that it has served multiple purposes: sociocultural, agricultural, commercial, religious, and even medicinal. As a physical product its origins are somewhat murky, and one can only speculate as to how and when our ancestors discovered that grapes left to overripen can ferment and produce a liquid that is pleasurable to imbibe. When they did realize this, in the absence of potable water, wine's role as a refreshment that aided digestion as well as provided a

stimulus that eased the sorrows associated with the trial and tribulations of everyday life not surprisingly increased its utility. Presumably, there were many trial-and-error efforts to make wine, but little is known of these. What evidence exists follows the introduction of systematic production practices that led to wine becoming a commercially viable product. In other words, the practice of winemaking became institutionalized and somewhat formalized, indicating established procedures and a probable market for the product.⁴

Evidence that ancient Egyptians and Greeks used wine in religious rituals and increasingly in daily activities suggests that basic knowledge about viticulture was transferred across regions and cultures in the Eastern Mediterranean as far back as 6000 BC. But because it was expensive and often scarce, it was a beverage enjoyed by kings and elites, thus giving it a secular role to accompany its emerging religious and ritualistic significance. Wine was offered to the gods to seek favors, and its integral role in sacred life can be seen in the many depictions on temples and tombs where images of wine are pervasive.⁵ In death, wine apparently provided solace – the afterlife might be fraught with uncertainty, but at least a pleasurable beverage was on hand.

Among the elite, its usage appeared to be associated with feasts and other important occasions. Eventually, it became a profitable agricultural commodity, benefiting from trade and increased consumption, which in turn drove more extensive planting of vineyards and flourishing commercial activity. While originally the preserve of the wealthy, by late Greek and then early Roman times its consumption had become more widespread among the general population. It retained its ritualistic importance, and presumably such wine was of the highest quality and the most expensive. Cheaper wine meanwhile was consumed daily by the rest of the population. Their habits, alongside religious rituals and elite consumers, gradually imbued wine with cultural significance as a commonplace beverage for many societies.

Wine gradually spread as a beverage of choice throughout Europe, often courtesy of Roman legions moving northward through Europe and planting vines to satisfy the needs of their soldiers. Such actions introduced wine to the cider and beer-drinking Gauls in what is now France. Centuries later, some of those vines came under the tutelage of monks who bestowed an enthusiasm, commitment, and increasingly systematic knowledge to perfect the beverage and raise the quality to standards that we are more familiar with today.

As the Greeks and Romans invoked the gods to legitimize their wine drinking and justify its importance as a beverage, medieval monks in France further enveloped wine with religious significance in their own winemaking activities. Religion would always imbue a legitimacy for a product, even one that had often developed negative connotations of revelry, debauchery, and degeneracy. But monastic orders provided a more rigorously ethereal and less sanguine context for the physical production of wine. They firmly established its centrality to daily rituals (the sacrament), as a complement to their daily meals, and an important part of their hospitality functions. Since the product was unambiguously reverential, the highest quality was essential, thus motivating the monks to work assiduously on perfecting their product. In this, they were aided by an organizational philosophy and long-term planning as they applied systematic methods of observation and calculation to discover how different plots of land produced different types of wine. Thus was born the notion of “terroir,” and the idea that a multiplicity of factors combine to produce a distinctive type of wine.

This monastic legacy of scrupulous attention to detail and systematic experimentation plus enhanced technical knowledge laid the foundation for the production of high-quality wines, many of which have become notable brand identities. Here, and in other areas of France and Italy, wine’s status as an everyday beverage remained, but the overall quality of the product was improving as people better understood ways of mitigating flaws as well as identifying what grows best and where.⁶ Thus, markets became differentiated as wine became a beverage of distinction even when not designated as part of rituals. It retained its status as a commodity for everyday usage when not imbued with religious significance, but certain wines acquired the veneer of heightened respectability as a luxury product that elites and the wealthy could indulge in to enjoy and brag about.⁷ A normal person might drink an inexpensive wine, possibly of their neighbor’s making. But that wine lacks the quality and aura of a refined product. The wealthy, however, had discovered what their elite classical counterparts enjoyed millennia earlier – a beverage notable for its quality and expense, and one that few such as themselves could enjoy. In subsequent centuries, other regions in France and elsewhere in southern Europe became known for the excellence of their wine, while also producing vast quantities of cheap wine designed to slake the thirst of the average person. These issues are all discussed in greater detail in the next chapter.

What is a Quality Wine?

From this brief history one gains a sense of wine's integral role in culture, religion, and the daily life of ordinary people in past millennia. Wine became ubiquitous, imbued with cultural and commercial significance. It was both a commodity as well as a differentiated product to be savored on special occasions. Inevitably, some wines are better than others – that's natural, since different winemakers bring different skillsets, and different areas (through their soil, climate, topography, etc.) have the potential to produce better wines. But how can one tell what is a really good wine? Are there some objective measures against which one can evaluate a wine? And if so, is this something that the average wine drinker can detect? Presumably, the more wine one consumes the more discerning one becomes, although one is still at the mercy of one's memory. Inevitably, there have been many bad wines – ones that are flawed as a result of bad production methods. But if one discounts these, how much variation in quality exists within the bulk of wines, and who determines if a wine is of exceptional quality? Inevitably, pricing, classifications, and branding would provide answers to these questions.

From the Middle Ages onward, special wines were noted for their transcendent quality and also higher price. Consuming them proffered an aura of sophistication on the drinker because they had the financial means to acquire it. At the same time, some producers were recognized for their skills as *vignerons*, and certain regions became renowned for the distinctiveness of their wines. For example, Bordeaux producer Arnaud de Pontac marketed his wine (named *Château Haute Brion*) in London taverns during the mid-seventeenth century, being one of the first to assign a designation of place on the label.⁸ Samuel Pepys commented favorably on this wine in his journals, referring to it as *Ho Bryn* (sic). Half a century later, the *London Gazette* commented on the quality (and high price) of other Bordeaux wines – Lafitt (*Lafitte Rothschild*), Margouz (*Château Margaux*), and *La Tour*. Clearly, quality wines were being produced and recognized as such by discerning consumers. Such wines commanded a high price and a regional identity – the genesis of subsequent brand development.⁹

But aside from price, exactly how do we evaluate wine when individual tastes vary and the circumstances under which we drink it can be very different? Do different people tasting the same wine discern the same flavors? Are some people better at identifying the unique characteristics of the wine, and thus the possible markers of finesse and excellence, than others? For the everyday drinker, does any of this really matter if all one

seeks is a crisp white to pair with your oysters, or a robust, full-bodied red to accompany your steak? Finally, what is it that we as individuals like in wine?

When searching for a wine one appreciates, one is merely ambling down an oenological road littered with past experiences – some far more rewarding and enjoyable than others. One’s taste changes, circumstances vary, opinions formulated alone are dramatically revised when with another whose authority is deemed more significant. No matter how confident one is in the ability to determine quality in a bottle, one can be influenced by external factors in ways that render any objectivity an elusive goal. A bottle of wine consumed at a picnic in a meadow on a beautiful spring day with the person of one’s dreams, surrounded by rolling hills, gentle breezes, butterflies, and birds hovering overhead – everything evoking an Arcadian respite that soothes the senses and calms the nerves. How can the wine be anything but perfect? But that same wine drunk in a noisy restaurant, with boisterous table neighbors, unpleasant company, a searing headache, and the pervasive desire to escape to the tranquility of one’s own domestic refuge – a flawed wine, perhaps, or an experience that significantly alters the perceived quality? Conceivably, this is a wine that would not be eagerly sought out on another occasion. And yet, ultimately it is still the same wine.

So perhaps it is not the wine that changes but the mood of the person drinking it. If such is the case then does this not render quality evaluations even more difficult? Or are there wines that can transcend these idiosyncrasies? If so, how do we know what inherent features signify such a wine rather than being determined by extraneous forces? Since individuals are not always confident in their own tasting, I suppose we can fall back on the wisdom of “gatekeepers” to authenticate the product. In recent years, critics such as Robert Parker and the writers at *Decanter* and *Wine Spectator*¹⁰ have introduced supposedly objective measures of quality designed to capture what for many are intangible aspects of an ephemeral product. These include narrative accounts of flavor profiles with reference to fruitiness, floral, and other natural aroma descriptors, as well as comments on the wine’s relative complexity and balance plus the introduction of a quantitative score (usually out of a hundred). For many, such critics perform a valuable role in breaking down information asymmetries. Others however might feel this merely obfuscates rather than edifies. Given consumer insecurity about buying wine, such guidance simplifies everything, reducing all of the imponderables and subtle nuances to a basic numerical score that they are familiar with from their school days. But does a score of one hundred mean a perfect wine? And if so, what do

we mean by perfection? Yes, I agree that we can assign discrete accolades to a series of supposedly measurable traits and arrive at an overall assessment. Yet, can it be truly objective?

Another problem is that, once purchased, wine is consumed and thus disappears, except in the memory of the drinker. This ephemerality renders judgment even more confusing, because now one has to recall how the product tasted, and memories are notoriously inaccurate. We might remember a fine wine, but can we ever recall the exact taste? Would we be able to definitively say that the same wine drunk weeks or months afterward tasted exactly the same? Again, the situational effects and pervasive subjectivity all have a bearing on this. The philosopher Cain Todd questions whether wine is an everyday, ordinary, physical object, or an imaginative, interpretive, experiential one.¹¹ In other words, by giving greater agency to the drinker, are we rendering objective evaluations less meaningful? A flawed wine notwithstanding, what exactly is it that we appreciate when we taste a wine?

This brings us back to the essentialism of wine as a social phenomenon consumed at meals or with friends. From its origins, wine has been a social beverage, an aid to community spirit, a drink to foster congeniality, or an important component of rituals. This leaves me agreeing with Roger Scruton and his writing on wine from a philosopher's perspective. "A good wine," he says, "should always be accompanied by a good topic and the topic should be pursued around the table with the wine."¹² In other words, wine is not merely a good complement to food, but an even more crucial accompaniment to thought. The more elevated the conversation, the more salient the quality of the wine becomes. An extravagant claim, perhaps, but certainly one that resonates with what generations of winemakers have implicitly understood and embraced. Perhaps this is why there have always been producers who passionately strive to make a fine wine – the perfect expression of their capabilities as well as a product for the ages, and something that will embellish both the culinary and cerebral components of dining. They strive for perfection, recognizing that it is precisely an elusive goal and the challenge is inherent in the seeking – the journey is what motivates as much as the destination. They seek to make a product that corresponds to their own notion of beauty rather than one that has been imposed by others. As a consequence, there will continue to be great wines, well crafted, impressive, and redolent of all the characteristics that oenophiles sanctify. The rectitude of the critics as official arbiters of greatness will inevitably bring attention to such wines and their makers. But there are probably many unsung heroes in this journey who deserve a place

in the pantheon, just as there are those who consistently produce a product that satisfies the tastes of many and in whose eyes perfection is less a transient phenomenon than the gratification at that particular moment and place in time.

Organizing a Wine Market

In the above discussion I endeavored to explore the vicissitudes of taste as well as the varied circumstances under which wine is produced and consumed. People have made and drunk wine for thousands of years, and while we do not entirely know what the quality was like in early times, we can appreciate that increased discernment among some wine consumers came as a result of improved wine quality by producers. This followed improved technical skills and knowledge transfer, and in turn presaged a demand for better-quality wine as people came to understand what was possible, and presumably had the financial wherewithal to pay for a quality product. In other words, an incipient market was organized around makers, sellers, distributors, and buyers of wine, and it is to such market activities that I now turn my attention.

Understanding the complex relationship between the supply and demand of wine necessitates an analysis of markets, specifically how they were created and structured, and how they subsequently evolved. In this next section I first discuss the general principles of market organization, and then discern how various agents might typically shape and structure exchanges in ways that engender efficiency. To understand firm, sector, and industry growth it is useful to contextualize the activities of individuals, institutions, and broader political economic forces within an organizational framework. Specifically, how can one account for the emergence of a market space that encouraged product differentiation and new entrants? I speculate that, for an evolving industry or sector to be successful, firms must be able to develop dynamic capabilities in conjunction with technological innovation, plus requisite resources (suitable injections of social and financial capital). How this pattern occurs is crucial in understanding market evolution as the product of purposive behavior rather than abstract *deus ex machina* forces that somehow emerge to reconcile disequilibrium.

If one conceptualizes markets as vehicles for organizing the exchange of goods or services, with the presumption that optimal levels of equilibrium are attained and thus efficiency maximized, can one assume that the interaction between supply-and-demand forces provides a nominal structure? This is the standard neoclassical view. But markets evolve

gradually and often without initial coherence, save that of providing a semblance of structure for the exchange of goods. It is this gradually changing structure that eventually provides coordination and order that facilitates the production, distribution, and consumption of goods.¹³ Typically, the structure emerges once a viable network of individuals endows consistency to exchanges. Such networks consist of actors whose evaluations of other actors provide legitimacy for market exchange or render it unviable. In other words, their willingness to invest time, money, and reputation is a crucial component for an emerging market's legitimacy and eventual success. When this occurs, consistency begets predictability, thus minimizing mutability and consolidating future market relationships.

The problem, however, is that knowledge is often imperfect and information asymmetric, and trust therefore becomes a crucial intermediary in such interactions. The attainment of trust is fraught with uncertainty and often misinformation that can exist if relations between firms are too competitive. Yet, if firms are to overcome the liability of newness, it is often in their interest to embrace the increased repetition and density of interactions. This is particularly the case with firms in an emerging sector that are seeking operating efficiencies that allow them entry into the marketplace. If they recognize the optimal benefits of engaging in interactions, this engenders trust and encourages the further exchange of both technical and tacit knowledge¹⁴ – the latter being of particular importance in embryonic industry sectors where formal knowledge and practices are underdeveloped. The merging of informal knowledge and formal exchange mechanisms that eventually acquire semi-legal status confirms the salience of social relationships as an implicit structuring principal in market transactions. This is essentially what underlines sociologist Neil Fligstein's claim for the architecture of markets as institutionally embedded.¹⁵

Through mutually-agreed interaction and occasional actual resource sharing, firms develop capabilities that enhance economic routines. The resources that further sustain such routines, increasingly replicable by industry newcomers, generate collective organizational learning, leading to eventual industry-sector growth. Firms might subsequently differentiate themselves through their strategic values or capabilities and respective resources that generate value. But as Mathews argues, in the aggregate, their dynamic capabilities are part of an ongoing process whereby interaction between firms is the source of innovative capacity and economic learning.¹⁶ In other words, firms utilize individual resources to leverage interaction and maintain routines to maximize economic efficiency, but draw from the clustered pool of other firms the organizational and operating dynamics that

are diffused within such a framework. Such market opportunity learning dynamics contribute to innovation, both at the individual firm level as well as industrywide.¹⁷

The economist Michael Best argues that innovation and sectoral transformation are driven by entrepreneurial firms when part of networked groups of collectively innovating enterprises.¹⁸ While his argument is derived from studies of high-technology sectors, it nonetheless resonates with what others have found (including the growth of distinctive wine regions) when small firms leverage diffuse design and technological innovations that are geographically proximate.¹⁹ Additionally, entrepreneurial stability is enhanced when procedural issues can be informally transferred and requisite knowledge dissemination somewhat routinized. Furthermore, face-to-face interactions facilitate mutual adjustments that in turn foster capability specialization, experimentation, and incremental innovation.²⁰ The more successful that firms become, the more attractive the sector is to newcomers whose own resources can enhance embedded ties and concatenate new knowledge sources. Napa's recent history is a testament to this process.

An extensive literature on the dynamics of firm clusters goes all the way back to Alfred Marshall's seminal work highlighting this tendency when it was published in 1890.²¹ Subsequent studies exemplify the process in which new industry entrants capitalize upon informal networks and tacit information acquisition to sustain their early growth. The continued co-location of firms in a particular area (or cluster) engenders knowledge diffusion and sustains collective organizational learning, furthering the coherence of an evolving network structure that eventually assumes a *de facto* governance role. Inter-firm collaboration embeds individuals, firms, and industry services in an evolving collaborative project that stimulates further innovation and eventually sector growth.²² Clustering facilitates information sharing and collaboration, at least in the industry's infancy. It also permits firms with different resource capabilities to minimize weaknesses and maximize the benefits of collective pools of knowledge. Admittedly, weaker resourced firms might continue to experience adverse efficiency problems that could and often do see them exit the industry. But aside from such natural mortality rates, the structural aspects of firm density are generally conducive to cluster growth if inter-organizational relationships provide at least a semblance of informal governance and order.

As sectors grow and markets become established, competition along product lines emerges, but, at least in the initial stages, norms of reciprocal

obligation continue to bind actors together because of the mutually beneficial nature of knowledge and information sharing. This, and an increasing access to emerging pools of skilled workers in which knowledge transfer occurs with inter-firm worker mobility, further adds to the dynamic capabilities of extant firms. Innovation subsequently becomes embedded in an institutional framework that legitimizes the market structure and provides nominal governance to support order.

Early Lessons from France

Crucially, markets not only satisfy the coordination of transactions between organizations and via networks, but also solve problems of production, consumption, and distribution. By providing an ordered space that brings key actors together, they lend predictability to transactions with determined outcomes less vulnerable to chance. For example, early markets for wine in and from France, focusing initially on Bordeaux and Burgundy, were hindered by the difficulty of transporting the product beyond a certain distance, thus consigning production and consumption to a local area. With improved transportation and innovations in winemaking techniques that minimized spoilage, it was possible to reach more geographically distant markets. But this necessitated greater product awareness by buyers, which came after suppliers (merchants acting on behalf of producers) themselves acted as de facto guarantors of quality. And this was achieved by virtue of their own informal knowledge of the local wine markets, plus an emerging relationship with third-party individuals who assessed winery production and shared information on pricing plus quality attributes.²³ This reduced information asymmetry to levels that inspired confidence among buyers, who increasingly recognized brand values.

The above unfolded over centuries, but it was in the mid-nineteenth century that Bordeaux, through the official classification system of 1848, formalized what were often informal assessments of the quality and ranking of wineries. This cemented a market structure which would confer identities and social standing to key actors whose prominence in vertical rankings enabled them to maintain boundaries that protected their new legitimized status.²⁴ This has subsequently evolved and embraced other regions within the country with a similarly acknowledged sense of place and quality. How might this pattern be different in an emerging wine industry in a different country without the tradition and culture of winemaking and consumption?

Wine economist Denton Marks identifies four crucial aspects of market behavior as it applies to wine, which are particularly salient for a new

industry.²⁵ First is the level of information available to suppliers and buyers. Given the vicissitudes of climate, grape growing and winemaking have always been fraught with uncertainty, and this can be important in determining product quality. Second, market size and purchasing power can shape interactions – small producers might lack bargaining power and wealthy customers can influence market direction by their buying preferences. Third is the degree of competition and how this influences the market tendency to produce what consumers want. Finally, how efficient are markets in maximizing the performance of individual firms? In other words, without some regulatory framework will best-market outcomes always be achieved?

Clearly, knowledge in wine markets is imperfect, given the uncertainties listed above. Hence, issues such as pricing and quality are subject to a wide array of evaluations. Production cost variability might be less salient than in the past given improved technical knowledge, but, in an industry where one has only one chance a year to get it right, this is not something to be dismissed lightly. Since wine is not a homogenous product and quality varies considerably, it is imperative to gauge appropriate mechanisms that allow informed assessments. Classification systems can be useful in helping people understand and identify wine, and as sociologist Wei Zhao has argued, they are a core part of a regulatory system and help structure markets.²⁶ Such systems typically group wines according to some form of geographical or varietal identity. French wines are classified vertically according to regional appellation, whereas American wines are horizontally classified according to grape variety. In subsequent studies, he shows how such classifications are important for individual firm-identity construction, especially when it can be leveraged to raise prices if status indicators coalesce around reputational markers.²⁷ This allays some concerns over lack of transparency, although many classifications are in fact socially constructed and politically manipulated, and hence reward asymmetrical power structures and possibly distort objective measures. Nonetheless, they do provide a measure of market organization that can be useful for consumers in making purchasing decisions.

In sum, market efficiency is tempered by product ephemerality, significant differences in consumer motivation (drink now or lay down the wine), wine as an experience (as opposed to a search) good (you have to buy it and drink it to fully know what it is like), varying levels of producer capability (and knowledge), plus a complicated regulatory environment. All these add to the complexity, unpredictability, and sometimes lack of transparency that structure market behavior.

Outline of the Book

Perhaps the best way to unravel this complicated set of actions is to examine how the wine industry emerged and discuss the ways in which it served parallel markets (quality versus quantity wines), with certain products attaining status by virtue of their quality (or the perception thereof), and how producers organized the market around differentiated products. What can the Greeks, Romans, Burgundian monks, and Bordeaux burghers tell us about market forces and the institutionalization of a wine culture? Chapter one examines their story, and analyses how markets were created around product differentiation, trade, and changing consumer demand.

We then move to the New World, where in the past century regions have been recognized as sites where wines of the highest quality have been produced, often amid cultures where wine consumption was far less pervasive. In a shorter period, eschewing overt references to history, tradition, and culture and often embracing a more technologically mediated approach to winemaking, wineries in the New World developed requisite competencies and capabilities often around innovative techniques combined with extant practices. In many cases, they have been able to experiment and take advantage of favorable climatic growing conditions that suit certain types of wines and their flavor profile, and also embrace a more scientific approach to various stages on the production channel.

One such place is Napa, California, where over a century ago would-be winegrowers were still trying to determine what varieties best suited the region's soils and climates. They then saw their industry effectively shut down for decades following Prohibition and struggle for several more decades after the Second World War, before quality practices were more firmly institutionalized. Skill and knowledge levels became more widespread following the co-location of firms, and eventually foreign recognition of the area as a producer of fine wines was attained. Only then did a significant market for such wines become established as Americans increasingly took to this homegrown beverage and wine consumption increased.

In the ensuing chapters I examine how wine's place as a relatively simple beverage – introduced by missionaries into California several hundred years ago and initially used in religious rituals before becoming secularized – gradually transformed into an often-prized brand that in some instances has acquired iconic status. Through decades of trial and experimentation, grape growers gradually understood what varieties to plant, and eventually what consumers preferred. It is a story that embraces this evolving understanding

of place and what the French call “terroir,” as well as the science and technology that facilitated a rational and purposive approach to winemaking. Relatively free of regulatory frameworks that often constrained Old World growers, winemakers in California could experiment more freely than their European counterparts, and in one notable region – Napa – produced wines that are internationally recognized for their quality and style. This book is that story, one in which key individuals created a market for a hitherto undifferentiated product, and organized production in ways that have fostered status attributes and quality markers generally ascribed to wines from regions with longstanding historical (and cultural) traditions. It examines how individuals came together, with varying levels of experience, expertise, and resources, and shaped the evolution of an embryonic industry. In doing so, they have been able to assiduously coordinate activities among growers, share tacit knowledge, and eventually create an institutional framework that helped organize market structure. The result has been, in the past few decades, a purposeful attempt by actors in the marketplace to organize the pursuit of quality in their finished product and elevate brand Napa to the pinnacles of oenological excellence. What had taken centuries to achieve in the Old World has been accomplished in the space of decades.

Utilizing the organizational framework outlined earlier, I discuss how dynamic firm capabilities developed in Napa over the past one hundred and fifty years. While the historical trajectory of wine production in Bordeaux was longer, it was also marked by often ad hoc innovations, political upheavals, and structural changes. In Napa, actors were more purposive in their actions, and in recent decades assembled a market architecture that would facilitate quality and reputation building for an industry without the legacy of tradition and culture to fall back on.

Of specific salience is the way individuals brought different resource sets in different periods, and in doing so shaped the evolution of the marketplace for wine away from an early obsession with quantity to one that prioritized production quality. They did this in the context of agricultural transformation in northern California, from predominantly fruit-and-nut growing to vineyards. Their efforts were occasionally stymied by extraneous events alongside an imperfect knowledge of basic production techniques. But through their persistence and subsequent technical innovations, disseminated through institutional actors, they were able to forge an industry structure and eventual governance systems that ordered the marketplace. In later decades this attracted new actors, many with vastly different resources and capabilities who were able to elevate quality benchmarks, improve the status of the sector, and develop an informal classification that embellished