

CHAPTER 1

Introduction: A practical  
approach to wine  
marketing

### Chapter Objectives

After reading this chapter you will

- Appreciate the dynamic nature of the wine industry
- Understand the importance a market-driven approach to the business of wine
- Appreciate the complex nature of the supply chain for wine
- Identify the 8 Ps of wine marketing
- Understand how this book is used

## The context for wine marketing

Wine is one of the most civilized things in the world and one of the natural things of the world that has been brought to the greatest perfection, and it offers a greater range for enjoyment and appreciation than, possibly, any other purely sensory thing which may be purchased. One can learn about wines and pursue the education of one's palate with great enjoyment all of a lifetime, the palate becoming more educated and capable of appreciation and you having constantly increasing enjoyment and appreciation of wine even though the kidneys may weaken, the big toe become painful, the finger joints stiffen, until finally, just when you love it the most you are finally forbidden wine entirely.

Ernest Hemingway (*Death in the Afternoon*, 1932, p. 14)

Wine is a complex, almost enigmatic, product. At once it is:

- a provider of sustenance and a luxury item;
- associated with healthy living, while in excess it can lead to death;
- a symbol of status and a 'peasant' drink;
- of immense religious and cultural significance and can be associated with hedonistic and debauched behaviour;
- a fashion item, experience and commodity all in one.

Wine comes in many varieties, vintages, styles and from many parts of the world. It can range from 'two buck chuck,' retailing for US\$1.99, to a bottle of 1787 Chateau Lafitte (a red Bordeaux wine), which sold at auction in 1986 for US\$160,000 or a bottle of Chateau d'Yquem (a sweet white Bordeaux wine) from the same vintage purchased for US\$100,000 in 2006.

Charters (2006) provides a very detailed account of just how complicated wine is, but he also suggests that at a very basic level wine can be divided into two broad categories: bulk wines

and premium wines. This binary is important to any discussion of wine marketing as the two are historically very different products but, despite the fact that bulk wines account for a significant proportion of production, 'almost invariably those who discuss, sell or write about wine refer to it as if it were a single, homogeneous product, albeit in various styles' (Charters, 2006, p. 51). Of bulk wine Charters (2006, p. 51) says, that it:

may or may not be mass produced, but [it] is nevertheless generally purchased in large volumes (either direct from a vat, or in containers larger than the traditional 750 mL bottle)... Consumption of this product takes place substantially in countries which produce wine – but not exclusively in Europe. Bulk wine consumption is widespread, for instance, in Australia and New Zealand. This kind of wine – consumed merely as a beverage – receives little focus from the wine industry which naturally tends to promote its premium product, and almost no attention from wine critics and writers. Nonetheless, it is economically important.

Premium wines, on the other hand, are:

designated explicitly as such in Australia (Geene et al., 1999), when [sic.] it is based on price, or as 'quality wine produced from a specified region' (QWPSR). Premium wine is not sold in bulk form. Its distinguishing feature in Europe is likely to be its region of origin and in most of the new producing countries that it carries a vintage date. It is almost invariably sold in 750 mL bottles.

(Charters, 2006, p. 52)

Charters continues that this distinction is fundamentally about the nature of the wine being consumed and not about market segmentation. He suggests that they can also be distinguished from each other on the basis of the aesthetics and social purpose of wine consumption and, often, by the place from which they originate. Premium wines provide greater aesthetic outcomes (rather than sustenance or lubrication), they are a marker of social status and social capital and they tend to come from cooler climate regions (while bulk wines come almost exclusively from hot regions where growing conditions allow for higher yields) (Charters, 2006). The dimensions of aesthetic consumption, social status and the cultural capital necessary to understand premium wines (and to distinguish between premium and bulk wine) are complex. However, it is important to note that bulk wines are also not bereft of cultural meaning. Indeed, the experiential dimension of all wine is a cornerstone of the approach of this book. For example, in the Old World bulk produced wines are typically markers of tradition, family, the rural idyll, place and/or the authentic. One of the reasons

why reform of the wine sector in the EU, for example, has been so difficult (see Chapter 2) is because of the cultural and experiential overlay that people from wine producing areas have with respect to all the wine that is made and the cultural landscape that produces it. As Barthes (1957/2000) observed, wine of all kinds is a 'totem-drink' for all French; imbued with meaning and significance. The wine market is therefore as complex as the product itself.

In the 'Old World' of wine (primarily mainland Europe), wine is a part of everyday life for millions of people. They grew up with wine, drinking it at every meal, and learning of its provenance, production and quality through this experience and exposure. For these people wine is sustenance, culture and spirituality melded into one. Here, the consumption of wine (albeit in differing levels of 'quality') knows no class distinction. In the 'New World' (primarily the grape growing regions of South and North America, Asia, South Africa, Australia and New Zealand), on the other hand, wine has become a symbol of status, knowledge and power. It is associated with special occasions and has typically been the preserve of a relatively small portion of the middle classes. For many of these people (and for the upper echelons of Old World society), wine has become a fashion item unashamedly consumed to show who they are and what they have achieved. Indeed, accord to Brook (2000b, p. 21) fashion, 'has come to influence not merely the style of wine production, but the very colour of wine'. Wine is therefore consumed as an experience, an event, an emblem (Unwin, 1996; Brook, 2000a; Charters, 2006). However, these historical distinctions between Old World and New World consumers are just the tip of the iceberg when it comes to the complexity of the increasingly changing marketplace of wine:

- While wine consumption is on increase in many New World wine markets, it has been in decline in most Old World markets for at least the last three decades (see Chapter 2).
- Wine growing has become identified as an important tool of regional development. However, at the global level wine production is increasing faster than wine consumption making for an increasingly competitive wine business environment.
- The growing body of wine marketing literature has identified differences in the wine consumer behaviour of men and women, between different generations, amongst different ethnic groups (especially in the USA) and in different countries. It is also possible to identify different markets depending on how they purchase and consume wine and the meanings it has for consumers.

- Other research has explored the way in which different markets use wine on different occasions and in different situations.

What is clear from all of this research is that there is no such thing as the wine market nor is there a typical wine consumer. Instead the wine market is made up of several, sometimes very niche, segments that are influenced by demographics, psychographics and the situation in which it is being consumed.

Research into wine consumers and their behaviour is becoming increasingly sophisticated so that it now includes explorations of personality, levels of involvement (see Chapter 9) and the milieu of motivations for purchasing wine. Unfortunately, however, much of this research is still not filtering down to those that need it the most – the wineries themselves and those that control its sale and distribution – while many other parts of the wine supply and distribution chains are also unaware about how their business success is interrelated with the success of the chain as a whole in meeting consumer demands. Furthermore, it has been suggested that around half of all published wine marketing research comes from New Zealand and Australia (Lockshin and Spawton, 2001) and therefore some parts of the global wine market still remain relatively poorly understood.

Lockshin (2003, p. 5) asks ‘What do we know empirically about wine marketing?’ In response he suggests that

Wine marketing includes many sub-areas of research. Traditionally, we would speak of the 4 Ps of marketing, product, pricing, promotion, and placement and their concomitant areas in wine marketing, such as branding, new product development, pricing, public relations, managing the sales force, and distribution. Beyond this, the area of wine marketing should include specialty topics, such as consumer behaviour for wine, wine tourism and cellar door (direct sales), supply chain management from the vineyard and supplier to the end user, labelling and packaging, wine events, medals and show awards, promotional activities, exporting including market choice and channel within market choice, selecting and managing agents, protecting intellectual property (names and logos), and world regulation of wine and alcohol.

(Lockshin, 2003, p. 5)

Given the complex nature of the product itself and of the market for wine, plus the fact that research has only relatively recently begun to understand wine consumer behaviour, it is no surprise that wine is one of the most difficult consumer products to market. This book attempts to unravel some of this complexity and provides some insights into the way in which an understanding of the product and its market can be used to more effectively

market and sell wine. This chapter highlights the value of a market-driven approach to the business of wine, demonstrates the complexity of the wine distribution chain and introduces 8 Ps of wine marketing that differ quite substantially from the 4 Ps of marketing. The value of understanding the wine distribution chain is that this book emphasises that value should be added over all the elements of the chain to the long-term benefit of all the individual firms and stakeholders in the chain. The chapter concludes with a précis of the structure of the book and some hints on its use. Firstly, however, we will discuss the highly dynamic nature of the wine industry and what this means for wine marketing.

## Wine: an industry in flux

In many wine regions around the world, wineries are riding the crest of a wave that has seen record export volumes and prices for wine. At the turn of the 21st century, for example, New Zealand could boast that its wine industry was winning awards for its wine in France, the UK, North America and Australia, beating all comers in show categories normally dominated by domestic and/or European wines. The value of New Zealand's wine exports also grew, skyrocketing from around NZ\$29.2 million in 1994 (New Zealand Winegrowers, 2004) to NZ\$512.4 million in 2006 (New Zealand Winegrowers, 2007). Winegrowers of New Zealand, in their *Scenario 2010* for the New Zealand wine industry, promoted New Zealand wine, '... as a high added value, innovative product New Zealand wine is marketed and sold to appeal to fashion leaders, opinion leaders, consumers with high disposable income, new age wine connoisseurs, the new generation, 18–30 year old women, and the health conscious' (New Zealand Wine Grower, 1999, p. 8).

If some commentators are to be believed New Zealand's success can only be bettered by that of Australia. In fact Anderson (2000) suggested that the fifth and latest boom in Australian wine production (beginning in 1987) differs substantially from previous booms, none of which lasted much more than a decade. Anderson suggests that the current boom is different as it is: overwhelmingly export oriented; mainly market driven; quality driven allowing the industry to build brand, regional and varietal images; riding on the back of heavy promotion of the health benefits of moderate (red) wine consumption that has seen consumers seek quality rather than quantity and still exceptionally good value for money in Northern Hemisphere markets. As such the Winemakers Federation of Australia's

*Strategy 2025* suggests that wine is 'the late 20th century lifestyle beverage of moderation. It is more than just a beverage, it has become a lifestyle product with a high degree of complementarity with food, hospitality, entertainment, the arts and tourism' (Winemakers Federation of Australia, 1996, p. 196). Anderson (2000, n.p.) suggests that

These are all reasons to be optimistic about Australia's long-term future as a successful exporter of premium wines. Within the next five years export sales could well account for the majority of Australian wine sold. How long the current boom lasts therefore depends heavily on export demand for Australian wine. That in turn depends both on the export marketing skills and efforts of the industry and on developments elsewhere in the world wine market.

These national figures, however, are hiding the real story for the vast majority of wineries, as 86% of Australia's branded bottle wine sales (both domestic and export) come from just 22 companies (Winetitles, 2006). That's only 1.1% of Australia's 2008 wine companies! As a result 1986 wineries (98.9%) vie for just 14% of sales and it is here that the benefits of Australia's boom have not been evenly distributed. It is these small-scale wine producers that have not necessarily gained from the Australian boom. Smaller wineries have less capacity to compete in the export market than their larger counterparts, both in terms of the costs involved and their ability to supply larger retail buyers. In Australia this has led to some dire figures in terms of profitability. In fact, Peter Barnes (President, Winemakers Federation of Australia) reported in February 2004 that:

Since 1997–98 winery profits have declined by 45% as a comparative return on assets, the greatest drop among established industry groupings. This impact is felt across the wine industry, especially among small wineries where the decline in profitability has been acute. In fact, wineries with annual turnover of less than \$5 million suffer from average profitability of just one per cent or less.

(Kilikanoon Wines News, 2004, n.p.)

Meanwhile, in New Zealand, *Doubtless Strategic* director Hugh Ammundsen has suggested that a predicted large increase in the supply of New Zealand wine, combined with the rise of the New Zealand dollar, make a shakeout in the wine industry inevitable (Carpinter, 2004). Ammundsen (cited in Carpinter, 2004, n.p.) also observes that 'wine producers face greater pressures than at any time in the last 18 years – since the fallout from oversupply and price wars that led to the government-financed vine pull of 1986'. These comments were made less than five years after Peter

Simic (Editor/Publisher, *Winestate Magazine*) said, lauding the growth and success of the Australasian wine industry, 'if you're not excited by what is happening in the Australasian wine industry at the moment then you're probably dead!' (Simic, 1999).

It is widely recognised that the wine industry in New Zealand and Australia is prone to high levels of boom-bust development (Hall et al., 2000; Treloar, 2004), with government-sponsored vine-pull schemes in the 1980s being the last evidence of a significant bust period. Evidence that perhaps this massive growth is about to slow comes from all over the world, with French wine exports continuing to decline in both volume and value (Styles, 2004a), including the traditionally strong region of Bordeaux, restructuring of one of Australia's largest wine companies (Australian Associated Press, 2004) and, despite massive growth in the overall value and volume of wine exports, the price per litre for American (Wine Institute, 2004), New Zealand (New Zealand Winegrowers, 2004) and Australian (Wine Business Monthly, 2004) wine has continued to decline for most of the last five years.

In Australia, this situation is predicted to worsen, with a grape surplus in Australia that began in 2003 (Gettler, 2004) and this has several implications for New Zealand wineries. The first is that Australian producers will be forced to discount their wines in a number of export markets in order to stay competitive, which New Zealand will struggle not to have to follow. Secondly, Australia will look to New Zealand as a market to 'dump' stock unwanted elsewhere and this will compete with New Zealand wines domestically (New Zealand Winegrowers, 2003). Finally, New Zealand too has a predicted grape production surplus and this will further force New Zealand wineries to discount in export markets. As such, Philip Gregan (CEO, New Zealand Winegrowers) states that, to keep pace with predicted grape production increases, New Zealand needs to increase exports to '... around 9 to 10 million cases per annum by 2007 ... a three-fold increase from the current level!' (Gregan, 2004, n.p.). Meanwhile, the New Zealand Winegrowers (2003, n.p.) suggest that in the domestic market

Whether or not New Zealand producers can recover a substantial market share from imported bottled wines ... will largely depend on their competitiveness in the under \$12 per bottle market segment. Currently the vast majority of New Zealand producers, given their costs of production, do not compete in this market segment.

Joseph (2005) goes further suggesting that there is already a crisis for the wine industry as production far outstrips production



(see also Chapter 2). He suggests that there has been an explosion of new wine producers all vying for an ever-decreasing slice of the wine market.

Cast your eyes anywhere in the world and you will find similar statistics. The skills of these newcomers at both making and selling wine vary widely. In Australia, many of the labels that have recently begun to appear on the market belong to people who never intended to make wine. Encouraged by tax breaks to plant vineyards, these lawyers, doctors and bankers expected to sell their grapes to bigger wineries. It was only when those companies either failed to buy or offered less per tonne than had been allowed for in the business plans that they had to go looking for winemakers, and names, labels and, most crucially, customers.

(Joseph, 2005, n.p.)

So, with a honeymoon period of the current boom for some New World wine producers seemingly nearing an end, continuing declines in domestic consumption in most European markets and declining returns on exports (despite increasing volumes of sales) for all but a few countries, there is a need for an increasingly market-driven focus for wineries around the world. Turrentine (2001, n.p.) suggests that this requires '... industry self-knowledge, self-control and efforts to expand markets. But it takes wisdom to see the need for self-control when business is booming, guts to be bold when business slows and – most difficult of all – cooperation to expand the market'.

Despite unabated growth in the number of new entrants into the wine industry, there is evidence, in New Zealand and Australia at least, that existing wineries are heeding this advice and they are exercising self-control and seeking evermore sophisticated knowledge of winemaking and wine marketing. Wineries are now more eager than ever for information and tools to aid in the sales of their wine. Some have a market-driven approach, but many still have a primary focus on the product. So what, then, are the differences between a market-driven approach and a product-driven approach to the business of wine?

## A market-driven approach

Variiously known as a 'market orientation', 'market led' or 'market driven' (amongst others), a market-driven approach is critical for wineries to survive in today's competitive environment (Barclay, 2001). Such an approach is common in most other sectors, but has not always been the case for the wine industry.

In France, for example, wine producers have long been focused on the production of their wine rather than the market that they sell to. This has been enshrined in appellation laws (see Chapters 2 and 10) which have severely limited French winemakers' ability to adapt to changing market conditions. In the New World, on the other hand, a product focus has resulted from the complex interaction of the romantic notions associated with all things rural, wine and winemaking that has blinded many winemakers to the reality of selling wine. In both France and the New World of wine, the result is often a winemaker or winery owner that is completely impassioned by his/her wine but who makes little deference to the wine market. For these winemakers the wine is their *raison d'être*, knowing who is going to buy it from them and why is someone else's problem.

Arguably, the basic distinction between a market-driven approach and a production-driven approach to the business of wine is in realising who ultimately determines the quality of the wine produced in commercial terms. In a market-driven approach producers realise that it is the consumers who decide on the quality of their wine by virtue of their decision to purchase it, not just once, but as part of an ongoing purchasing relationship. In contrast, a production-driven approach may result in the making of a quality wine as defined by the producer or by certain empirical standards, but there is no particular consumer or market in mind. There is instead an inherent belief that the product is there and because it is 'good' it will sell. Firms which follow a market-driven approach 'concentrate on developing distinctive wines, build long-term customer relationships, and understand what's happening in their various chosen markets. They know their products create a niche that their competitors cannot penetrate and develop marketing plans with measurable objectives and specific goals' (Barclay, 2001, n.p.).

### **An experiential (experience-driven) approach**

This book builds on the idea of a market-driven approach. But perhaps more than that, it emphasises that ultimately wine is an experience that includes everything from the intangible elements of wine and its brand image (e.g. symbolism, emotional value and meaning) to the more tangible service elements of economic exchange surrounding wine (e.g. the services provided by intermediaries, winery staff and retailers). Indeed, we agree with the insights of a number of marketing scholars that the 'strategy of differentiating services from goods should be

abandoned and replaced with a strategy of understanding how they are related. Service is the common denominator in exchange, not some special form of exchange' (Vargo and Lusch, 2004a, 334; see also Vargo and Lusch, 2004b). The physical good, or the physical aspect of wine becomes only 'one element among others in a total service offering' (Gronroos, 2000, p. 88) and the intangible, and perhaps more powerful, emotional and symbolic content is the true provider of value (Charters, 2006). The application of an approach that accounts for these experiential elements of wine calls for a much wider approach than Barclay's market-driven approach. According to Mitchell et al. (2000, p. 129), Holbrook and Hirschman's (1982) 'experiential view' of consumer behaviour '...recognized the special nature of products and services that have a hedonic component such as wine, leisure activities and pleasure travel'. This approach suggests that many products and services are consumed for non-utilitarian reasons such as 'fun, amusement, fantasy, arousal, sensory stimulation and enjoyment' (Holbrook and Hirschman, 1982, p. 135). As such the experiential view of consumer behaviour allows for the '...stream of consciousness or sensory, imaginal and affective complex that accompanies an experience' (Lofman, 1991, p. 729). The application of this approach to consumer behaviour to wine has recently been discussed in terms of wine tourism (e.g. Mitchell et al., 2000; Mitchell, 2004) and wine consumption more broadly (Charters, 2006).

In line with both Vargo and Lusch's (2004a, b) service-dominant approach and Holbrook and Hirschman's (1982) 'experiential view' of consumer behaviour, this book takes a more humanistic view of a market-driven approach. Therefore, we term the approach taken by this book as an experiential (experience-driven) approach in order to emphasise how wineries and all the actors in the wine production and supply chains need to focus on the values that consumers derive from wine and other competing products as a whole and from the wines that they are providing in particular. This means that we pay specific attention to the needs and experiences of consumers and customers and how we create and add value for customers in all elements of the chain.

Charters' (2006) triadic approach to wine consumption acknowledges that wine may be consumed for various reasons that fall loosely into three categories: utilitarian, symbolic and experiential. Charters suggests that the symbolic and experiential motivations for wine consumption are more important than the utilitarian (see Plates 1.1 and 1.2). The implication, then, is that traditional marketing models do not easily apply to wine and that a different approach is required and this is what we are

advocating here too. To make his point, Charters (2006) provides evidence from several qualitative interviews, finishing with a discussion of how complex wine consumption was for one particular consumer:

Wendy is a winemaker who has also been a show judge, having finely tuned organoleptic [(sensory)] skills to supplement a technical analysis. Yet ultimately the combination of flavours and the structure of the wine do something for her – with all her knowledge and skill – she cannot explain. Clos de Mesnil [(the experience of which she is describing)] is a very expensive single-vineyard Champagne produced by Krug; she can dissect it, and see how it has been produced, she can correct it in the winery, yet the way it ‘transports’ her remains a mystery. The fact that she chooses an exclusive and expensive wine suggests that such a quasi-spiritual response may not be appropriate for all wines, but at least for some that she drinks it is the case, and it is clearly an experience to be aspired to....

At this level wine consumption can combine almost all of the various factors which prompt consumption. Wendy clearly sees the consumption of Clos de Mesnil as fitting into her lifestyle, and it is probable that she sees it as helping to shape her image. There is also no doubt that it gave her immense pleasure, both organoleptically and in the sense of the challenge offered by the exploration of its complex taste. It also provided a socially cohesive experience (she talks of ‘we...’) and there may also be a sense of ritual to it; it was drunk at the end of the last day of the working week, the classic time for marking out private time. Yet all of these complex factors together make something that to Wendy is greater than the sum of their parts.

(Charters, 2006, p. 155)

As part of this approach we discuss the significance of providing hospitality, which goes beyond the traditional view of service as a rationalised commercial process. This can create a true comparative advantage where service can only ever create a competitive advantage which can ultimately be copied. In fact a purely market-driven approach or a largely service-driven approach has a tendency to reduce consumption to a commercial (transactional) act, doing little to add value beyond that which is purely economic. For example, in Chapter 4 we highlight how hospitality can go beyond a purely economic transaction, creating an emotional and meaningful connection that results in a lasting bond with the consumer. These principles are also discussed at various points in the value chain throughout the book.

Table 1.1 compares the differences between a production-driven, market-driven and an experiential approach to the business of wine and to wine marketing. In reality a winery will typically have a mixed approach to wine business. However, firms that

**Table 1.1** Production-driven and market-driven approach versus an experiential approach in wineries

Topic	Production driven	Market driven	Experiential
Products	Winery sells whatever it makes	Winery makes what it can sell	Winery develops experiences that complement their wine
Role of sales force	Sell to the customer – don't worry about the rest of the winery	Help the customer buy if the wines fit their needs, coordinate planning with other winery departments (production, accounting, etc.)	Provision of experiences that highlight values of the wine, intimately involved throughout the supply/value chain
Attitudes toward customers	They should be glad we're here	Customer needs determine our winery plans	Customers seek meaning from our wine, our brand values need to facilitate meanings
Advertising focus	Product features and quality	Need satisfying benefits	Emotional benefits, meanings and occasion based
Innovation	Focus on technology	Focus on finding new opportunities	Focus on tailoring to individual customer meaning
Packaging	Cost and product protection	Designed as a selling tool	Designed as a marker of meaning
Transportation	Viewed as an extension of storage	Viewed as a customer service	Viewed as not adding value and meaning, therefore viewed as cost
Profitability	A residual – what's left over after costs are covered	A primary objective before production begins	A primary objective achieved by adding value rather than reducing costs

Adapted from Barclay (2001, n.p.).

adopt a strong experiential focus are the ones that are most likely to succeed.

An experiential approach means that, from the grape to the glass, a winery goes beyond understanding its primary target

market and their markets' needs to develop approaches to know their market and the meanings that they place on their wine/brand. It also means that they keep abreast of political, economic, environmental, socio-demographic and technological trends in all of their major markets through constant environmental scanning and by measuring themselves against benchmarks that they have set for themselves. These benchmarks are qualitative as well as quantitative, as wineries identify wines and other products with brand values that most closely resemble those of their target market. They are not only able to identify their strengths, weaknesses, opportunities and threats but they are able to identify who their main competitors are and what they are doing (Barclay, 2001). Experience-driven wineries recognise that all staff must engender their brand values and not just the physical dimensions of the product that they sell because they realise they are selling an experience and a service that must satisfy customer needs in order to be successful. In addition, all staff realise that each point of contact that a consumer has with their product, whether it be advertising, ordering their wine in a restaurant, purchasing their wine at an outlet, or looking at the website will influence the consumer's equity in their brand(s) and is an opportunity to develop a relationship with that customer. The creation of long-term positive customer relationships will in turn lead to long-term loyalty in customer purchasing as well as positive word-of-mouth.

Brand is vital to an experience-driven winery as this allows them to further differentiate their wine from others. The brand is developed with the target market in mind and there is a high degree of consistency in the communication of brand values through all channels (e.g. labels, marketing collateral, press releases, websites, newsletters, cellar door/tasting room design and signage). The value of the brand is ultimately derived from consumers. Therefore, wineries that seek to develop their brands and maximise their value have a strong customer focus.

For an experience-driven wine company relationships are core to the way they do business. Developing and maintaining relationships directly with their customers is especially important and this requires a coordinated communication strategy that engages them and develops their loyalty. The most effective tool in this strategy is the cellar door/tasting room, where the winery has complete control over the way in which the wine and its brand values are presented to consumers (see Chapter 4). Where it is not possible to invite the consumer directly into the tasting room other ways must be found to give the customer the experience of being invited into the cellar door. Relationships with a range of individuals and companies within the wine supply

chain are also critical to the success of a winery as these are the people that are ultimately responsible for the effective communication of their brand values. Importantly, an experiential approach emphasises that relationships are developed over time and therefore a long-term perspective on relationship building is integral to the marketing strategy.

The supply chain for wine is very complex. In fact a single-supply chain that is exactly the same from country to country, and arguably even from winery to winery, does not exist and there are an almost unlimited number of routes that a wine can take from winery to consumer.

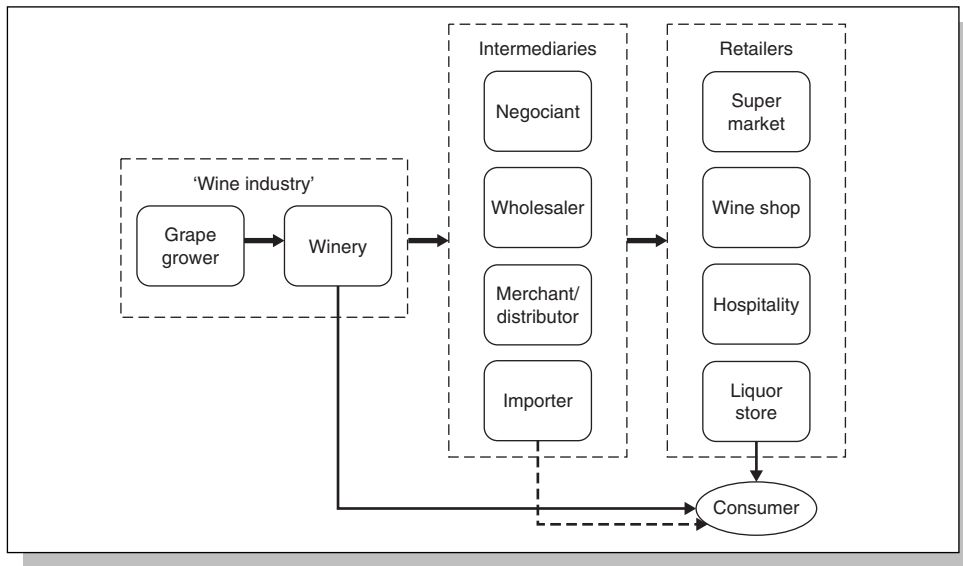
## The complexity of the wine supply chain

It is difficult to describe the sheer number of permutations there are for a winery to get their wine to the consumer. The wine supply chain is a minefield of choices each with the potential to make or break a winery. Unfortunately, too few new entrants into the wine business are aware of this complexity and of how to navigate their way successfully through to the consumer. Even for experienced wine industry campaigners it can be difficult as there are constant shifts in the nature of the supply chain as the chain becomes increasingly globalised (see Chapter 2). For example, in several large markets supermarkets have now become extremely powerful and are now playing roles in every part of the supply chain, including winemaking itself. The large number of different players means that it can be difficult for wineries to juggle loyalties and meet their many and varied demands. Each player also interprets and uses each wine brand in a unique way and this can influence everything from the ultimate target market for the wine to the final retail price and the way the wine is presented in the marketplace and perceived by the consumer.

The choices that wineries make regarding how their wine is distributed are therefore a critical component of the marketing strategy for a market-driven wine company. This means that wineries must understand the wine supply chain in order to evaluate which route, and which players, provide the best opportunities to reach their target market and effectively communicate their brand values.

In order to demonstrate the complexity of the wine supply chain, a series of models are presented here that gradually build a picture of the potential number of permutations presented to wineries. Figure 1.1 shows how the supply chain can be simply divided into three broad areas: the wine industry, which is

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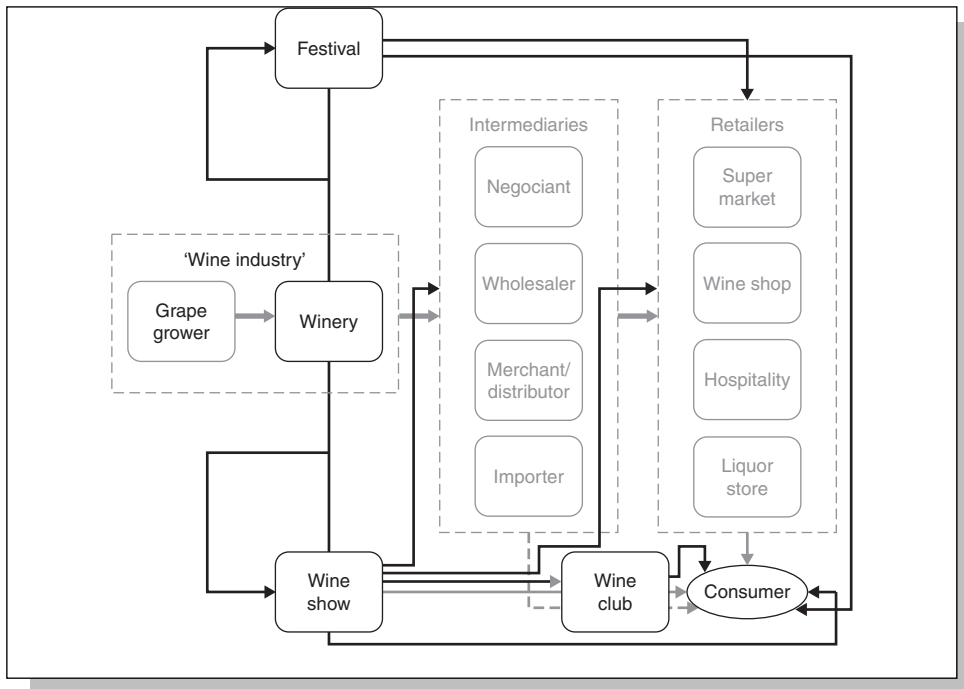


**Figure 1.1**  
The basic wine supply chain

responsible for producing wine and developing brand values; a range of intermediaries, with varying roles and levels of power, depending on the market within which they operate and; a range of different retailers. A winery can choose to use intermediaries and retailers, (or in fact may be forced to use them by legislation: see Box 1.1 for the USA's three-tier system), or can use various direct sales avenues to by-pass one or other of these elements of the chain (see Chapter 4 for discussion of cellar door/tasting room sales and Chapters 6 and 9 for discussion of the internet).

There are also a number of elements that lie outside these basic components of the wine supply chain. These include such things as wine and food festivals, wine shows and wine clubs (Figure 1.2). While wine shows and festivals have been in existence for many years, it is only relatively recently that they have become a conduit for wine sales and/or a tool for communicating brand values to consumers (see Chapter 7 for discussion of wine and food festivals and Chapters 7 and 9 for a discussion of wine shows). It is often important that wineries choose to take part in these events for reasons that will reinforce their brand values and reach their target markets. In doing so they need to research the target markets for the wine and food festivals and know which, if any, wine shows are most influential to their target market.



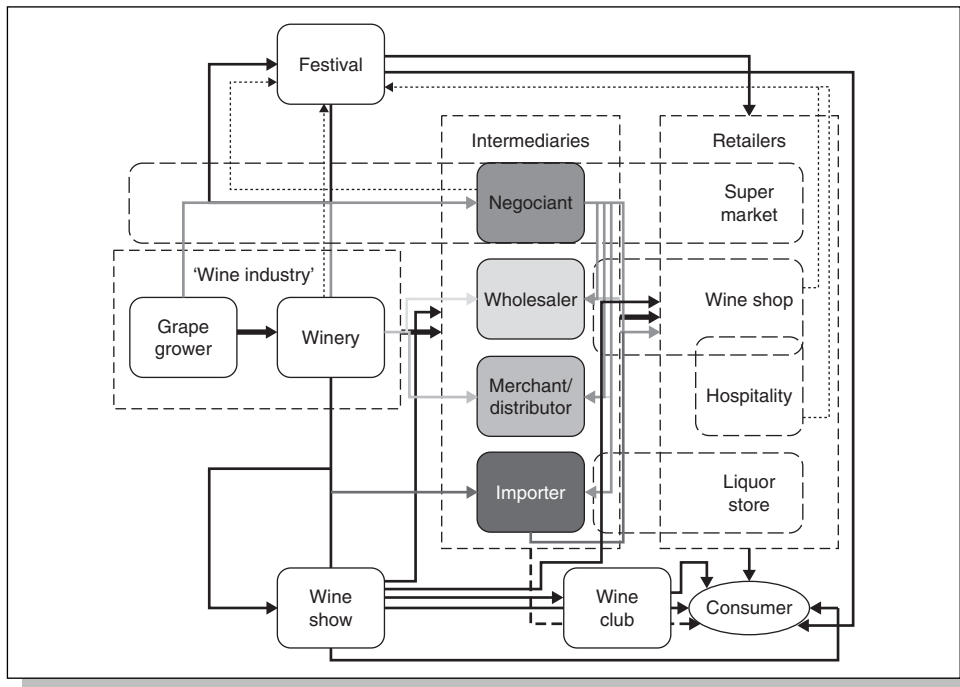


**Figure 1.2**  
The role of festivals, wine shows and wine clubs

Wine clubs are an interesting case, as they may be run by intermediaries, wine retailers, independent wine societies, wine and food media, unrelated organisations with large direct mailing databases (e.g. credit card companies) or the winery themselves. Obviously the most beneficial to the winery is the club that they operate themselves as they control the content of all communication and set prices and methods of distribution. These are also likely to have the most loyal consumers as members and, while they may not necessarily purchase through the club, the communications that they receive may prompt sales at other outlets and/or visits to the winery. At the other extreme are those wine clubs run by credit card companies, who are most likely to operate the club as a service to their members that reinforces their own brand values and therefore they are likely to have little interest in maintaining your brand values. The sheer buying power of these clubs also makes it nigh on impossible for small producers to break into this arena, let alone control the price. (See Chapter 9 for further discussion of wine clubs.)

Figures 1.1 and 1.2 do not however reveal anything of the true complexity of the wine supply chain. In reality there are multiple

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**Figure 1.3**  
Complexity of the wine supply chain

pathways between and within each of the three basic components of the industry, intermediaries and retailers. It is not possible to explain all of these pathways in detail here, but Figure 1.3 should help to highlight at least some of the potential pathways. Some of the relationships between different elements of the supply chain are discussed throughout this book. For example the role of negotiants is discussed in Chapter 5.

Figure 1.3 also demonstrates the blurring of the boundaries between the different elements of the supply chain. This has, at least in part, resulted from the transnationalisation and corporatisation of the wine industry. Large multinational drinks corporations such as *Pernod Ricard* not only control production but control distribution of their own brands and others. *LVMH* (Louis Vuitton Moët Hennessey) has an even greater level of control as they are a conglomerate of luxury brands (not just wines and spirits) and they have their own distribution networks and major international retail outlets like *DFS Galleria* (with more than 150 stores in Asia-Pacific) and *Sephora* (with more than 500 stores in Europe and North America). There is also consolidation of many of these larger companies (e.g. *Pernod*

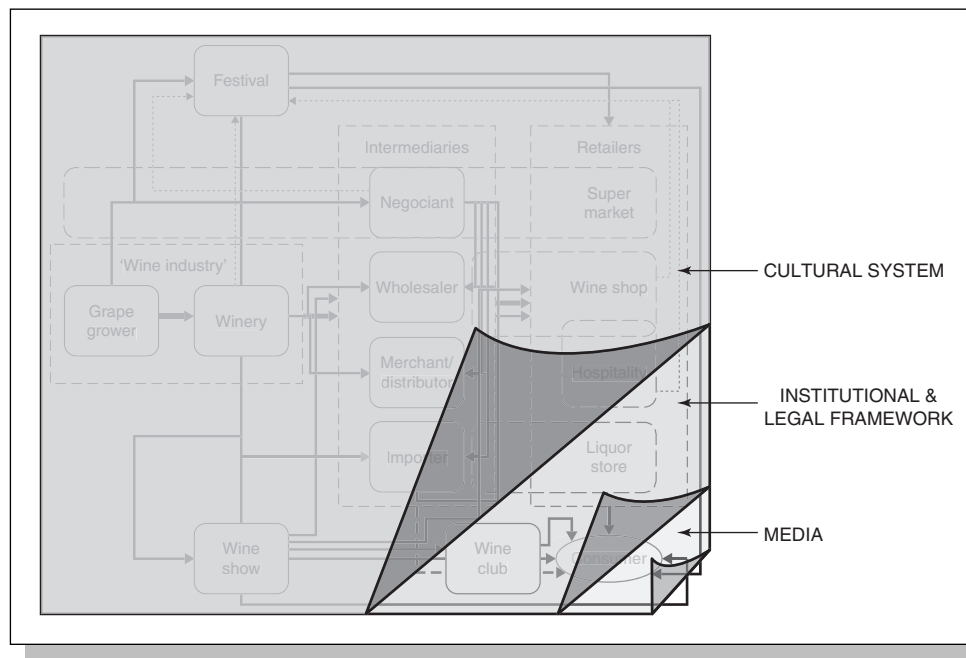
*Ricard's*, 2005 acquisition of *Allied Domecq* and the *South Corp – Fosters* merger in Australia). This can sometimes result in changes in distribution for individual brands within these portfolios and/or the selling off of unwanted brands to other companies and therefore lead to further changes in distribution.

Companies that have not traditionally been involved in wine production and distribution have also recently begun to assert more control over all elements of the supply chain. Supermarkets, in particular, have moved to have a wider involvement in the wine industry. For example, a number of UK supermarkets, such as Tesco and Sainsbury, have contracts with wine producers around the world to make their 'own brand' wines and/or for exclusive distribution of all of a winery's production, while Wal-Mart is also increasingly active in the wine market. The distinction between supermarkets and other wine retailers is also becoming increasingly blurred, with the *Woolworths* group in Australia purchasing *Dan Murphy's* (which was one of Australia's largest independent wine retailers) and *First Estate Wine Merchants* (now re-branded as *BWS: Beer Wine Spirits*). The result is a degree of both vertical (e.g. supermarkets owning other retailers) and horizontal integration (e.g. supermarkets effectively controlling production or branding) within the wine supply chain. This can be the source of much confusion for wineries and can make it difficult for smaller wine producers to gain shelf space in retail outlets.

The internet has also begun to change the way the supply chain works, but it has not been explicitly included in our supply chain model. This is because it is primarily used as a tool at all levels in the chain, rather than a distribution network in its own right. It can be used by wineries for direct sales, where regulatory systems allow, as well as by intermediaries to facilitate business-to-business transactions and retail outlets for sales to consumers. The internet provides opportunities for sales and as a promotional and communication tool and can add value to all businesses in the supply chain (see Chapters 6 and 9). However it is also adding to the multiplicity of distribution pathways already available to wineries and therefore increases the chances of poor choices being made.

Figure 1.3 demonstrates the complexity of the wine supply chain but it is not the full story. There are also a series of overlays that modify the supply chain in different markets around the world (Figure 1.4). Each market operates in a different cultural system which influences everything from: the relative importance of different types of intermediaries (e.g. negotiants being more important in parts of France than in other parts of the world); to the role and status of wine producers in society (e.g. peasant or

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**Figure 1.4**  
Media, legal and cultural overlays

farmer in some Old World wine regions versus entrepreneur or business operator in many New World wine regions); to attitudes towards different types of retailers (e.g. the relatively high significance of supermarkets in the UK and New Zealand).

Each national system also has a series of cultural influences and institutional and legal frameworks that determine how wine is sold and distributed. In Finland, Norway, Sweden and most of Canada, for example, wine is sold to the public through state monopolies, while the US mandates intermediaries (see Box 1.1). Similarly, in Australia wine sales in supermarkets are prohibited while in New Zealand 65% of all wine (53 million litres/70.7 million bottles) is sold via supermarkets (Corbans Viticulture, 2007).

Also within these cultural systems there is a range of media that can influence both the production and consumption of wine. In the USA, Robert Parker (a wine critic and journalist) is the single most influential individual in the wine media. His recommendations can be the difference between success and failure in the USA for a winery, a region or even an entire country (see Chapter 9 for further discussion of Robert Parker and other wine media). In other countries, individuals are less powerful

### **Box 1.1** The USA's three-tiered wine distribution system

One example of the complexity of the wine supply chain and the institutional frameworks that have been set up to reinforce this is the three-tiered system of distribution in the USA. US legislation makes it mandatory for foreign wine to be distributed via an importer, then a distributor and then a retailer. Until recently this also applied to all interstate wine shipments and it still applies in some states. This box shows how this system arose and discusses its implications for wineries.

#### **Prohibition of Alcohol: the root of the three-tiered system**

This situation is the result of the repealing of prohibition laws that were in place between 1920 and 1933 that saw the '... manufacture, sale or transportation of intoxicating liquors' and its importing and exporting prohibited throughout the USA. Prohibition formed part of the American Constitution (United States Constitution Amendment 18, ratified 16 January 1919) and it reflected strong temperance movements that had begun in the 1840s. The movement then waned for several decades especially around the time of the Civil War before being rekindled in the 1880s by the Woman's Christian Temperance Union and the Prohibition Party (Hanson, 2007). These movements were followed by powerful political groups in the 1900s, including the Women's suffrage movement, who felt that alcohol was the root of much of the poverty, crime and disorder of the time (Hanson, 2007). As such prohibition, not only reflected a movement against alcoholism, but also an affirmation of women's rights and an outcry against perceived declining moral standards.

#### **Amendment 21: Repeal of Prohibition of Alcohol**

Although not wholly attributable to prohibition itself, the period of Prohibition was in fact characterised by greater levels of disorder. In particular organised crime took off as gangs rallied to produce and supply illegal alcohol. As a result nationwide prohibition was repealed in 1933 (although it still remained in several States right up to 1966) by the 21st Amendment which simply states:

**Section 1:** The eighteenth article of amendment to the Constitution of the USA is hereby repealed.

**Section 2:** The transportation or importation into any State, Territory, or Possession of the USA for delivery or use therein of intoxicating liquors, in violation of the laws thereof, is hereby prohibited.

(United States Constitution Amendment 21, ratified 5 December 1933)

For the wine industry Section 2 was important as it gave the states power over the regulation of wine (and other alcohol), which led to the three-tiered system of distribution. This resulted in all states having some form of control over wholesale and retail operators. Around one-third of the states operate a state monopoly where the government owns and operates all wholesale and retail alcohol sales. The remainder have a strict set of regulations that require alcohol to be handled by State-licensed wholesalers and retailers.

According to Royce (1981, p. 42), because of varying levels of ongoing sympathy with temperance movements, State control of alcohol has also led to 'The fifty states [having] varied and even conflicting laws; for example, in one state food must be served in the same place as liquor, while in an adjoining state not one but two walls must separate food from liquor'. This further complicates the three-tiered system for those wishing to import wine into the USA.

### **Challenging the Three-Tiered System**

A number of States have seen legal challenges to their three-tiered systems from within the USA as wineries seek to directly ship wines to interstate consumers. These include North Carolina, South Carolina, New York, Michigan and Virginia (Wehring, 2005). A case of particular significance was the case taken against Michigan and New York in the US Supreme Court. This case, depending on which side is reporting the ruling, found that: these '... state laws banning direct shipments from wineries to consumers are discriminatory and, therefore, unconstitutional' (Wehring, 2005); or that the three-tiered-system was 'perfectly legal' and 'unequivocally legitimate' provided that it did not discriminate between in-state and out-of-state wineries (Virginia Wine Wholesalers Association, 2005).

These varying views of the same Supreme Court decision suggest that there are still many deep-seated divisions in the US surrounding alcohol, not to mention wine wholesalers wishing to preserve their monopolies. Despite this, changes are occurring that suggests that this system of distribution is on the decline, for US wineries at least (these changes do not apply to wines from outside of the US). In the 1980s there were just four states allowing direct-to-consumer wine shipments (Free the Grapes, 2007). By August 2006, 33 states allow wineries to ship wine directly from out-of-state via licensed shippers, but just 12 states allow wine retailers to do the same (Free the Grapes, 2007).

See the following for further discussion of the ongoing developments surrounding the three-tiered distribution system in the USA:

For both sides of the ongoing debate:

[www.freethegrapes.com](http://www.freethegrapes.com)

The website of *Free the Grapes*, proponents of continued freeing up of US distribution laws.

[www.wswa.org/public/index.html](http://www.wswa.org/public/index.html)

The website of the *Wine and Spirits Wholesalers Association*, the opponents of change.

For notes on each states regulations on wine distribution see the following documents:

Houchins, R.C. (2006) *Notes on Wine Distribution*. [http://shipcompliant.com/blog/document\\_library/dist\\_notes\\_12\\_0.pdf](http://shipcompliant.com/blog/document_library/dist_notes_12_0.pdf)

Barber, N. and Dodd, T. (2006) *An Analysis of State Direct Wine Shipment Laws*. Technical Report No. 06-03, October 2006, Texas Wine Marketing Research Institute, Texas Tech University, Lubbock. [http://www.hs.ttu.edu/texaswine/2006/technical\\_report\\_0603.pdf](http://www.hs.ttu.edu/texaswine/2006/technical_report_0603.pdf)

but wine (and food and lifestyle) magazines can be very influential. Australia has *Australian Gourmet Traveller (AGT) Wine Magazine*, New Zealand has *Cuisine* magazine, the USA has *Wine Spectator* and *The Wine Advocate* (for which Robert Parker writes) and the UK *Decanter*. Beyond wine-dedicated media, movies and television programmes can have a huge influence on consumer preferences. Perhaps the most notable example of this is the cult movie *Sideways*, which changed consumption patterns in the US overnight. Known as the 'Sideways Effect', consumers began drinking Pinot Noir in preference to Merlot because of one line in the movie (see Chapter 9 for more discussion of the Sideways Effect). Movies such as the *Lord of the Rings* Trilogy have also increased the desirability of all things New Zealand and wine has been no exception.

## From supply chain to value chain

The supply chain described in the previous section is one that has traditionally seen little value added between when the wine leaves the winery and when it reaches the consumer. This is especially the case where legislative frameworks and cultural systems have legitimised unnecessarily complicated pathways between winery and consumer (e.g. the US three-tiered system or the system of negotiants and merchants in Bordeaux). One of the desirable things for wineries and consumers is for the system of distribution to add value, not just cost, to the wine. A market-driven/experience-driven approach can facilitate this, turning a cost-driven supply chain into a value-driven value chain. A value chain is therefore a sequence of productive, value adding, activities leading to end use.

A production-driven approach does not necessarily allow, or even require, the addition of value by actors in the chain. A production-driven winery will see distribution as a necessary evil and treat it as a cost of production, while an experience-driven winery will see it as an opportunity to add value for its consumers. For example, in an ideal world an experience-driven winery might carefully select a distributor that is going to concentrate on placing its wines into retailers that provide a level of service and type of experience that meets their target market's needs. They would also treat the distributor as any other customer, developing a relationship with them, communicating consistent brand values and providing added value through education and experiences that support these brand values. This should in turn allow them to communicate the winery's brand values to the retailer and so on. Value can also

be added by exploring what other brands are associated with a particular distributor or retailer so that they closely match those of the wine in question. Alternatively, it might be an association with a particular restaurant that specialises in a cuisine that matches both the wine's characteristics and brand values (e.g. a local restaurant using only local ingredients or one that only uses organic ingredients matched with a biodynamic wine).

The distinction might also be made here between bulk wine producers and premium wine producers. Bulk wine producers, being primarily production driven, have traditionally focussed on distribution as a supply chain mechanism. However, they too can benefit from a strategy which results in a value chain rather than a supply chain distribution system. For example, Chapter 6 indicates how large, transnational retailers have sought to add value even with respect to their bulk wine sales via various sub brands of their own label wines. In short, anything that adds value to their wine must have a positive impact on their bottom line. In practice the strategies of bulk producers will be different to those of premium producers because of the nature of the product itself, but the principles espoused in this book can apply equally to both bulk and premium producers. This is especially true for discussions relating to several areas of the value chain, including: the marketing value of production (Chapter 3); the cellar door and direct sales (Chapter 4); intermediaries (Chapter 5) and; wine retail (Chapter 6); as well as the wider business context for wine (Chapter 2). Other parts of this book are likely to have more value for premium producers than bulk producers but there is clear value in bulk producers having an understanding of all parts of the value chain, especially as many bulk producers are moving into premium production in many parts of the world (Charters, 2006) while a number of existing wine businesses combine premium and bulk wine production.

There are many factors that can conspire to make this task difficult or, in some circumstances, impossible. These might include the availability of choice of distributor or retailer in any given market, the power held by different players in the value chain or legislative frameworks that remove choice. However, this should not detract from what is in essence an attitude: add value not just cost!

This kind of approach requires a wine producer to have a thorough understanding of the supply chain and the tools necessary to add value and therefore convert it into a value chain. It also requires an investment of time and effort in the development of relationships and communication to support these relationships. In short, it requires a focus not on the wine, but on the people that are responsible for adding value to it and giving it its true brand value: everyone from intermediaries to retailers, media and, most importantly, the consumer themselves (see Box 1.2).



### **Box 1.2** Australia's Marketing Strategy and Wine Australia market programmes (2007)

In 2007, the Australian Wine and Brandy Corporation (AWBC) released a new industry strategy and set of market programmes as part of 'a roadmap for wine sector sustainability'. The new strategy was regarded as important because the Australian wine industry has undergone a dramatic transformation since the publication in 1996 of the Strategy 2025 document that set a target of A\$4.5 billion in annual sales by 2025 – a figure already surpassed in 2005. According to Winemakers' Federation of Australia Chief Executive Stephen Strachan 'In the decade since the release of the Strategy 2025 document, the global operating environment has changed markedly with increased global competition, wine producer and retail sector consolidation, as well as a wine oversupply' (AWBC, 2006).

The new Wine Australia market programmes had been developed so as to move Wine Australia (the banner under which the AWBC promotes Australian wine internationally) from a 'one-size-fits-all' national generic brand to one that developed sub-brands that fitted in better with the various elements of the wine supply chain, such as those indicated in the various chapters of this book, but particularly different retail outlets. Thereby adding value through more of a value chain emphasis. According to the AWBC, Australia seeks to represent itself:

... as a broad and inclusive producer that seeks to champion quality and excitement whatever the price point. As we extend our brand footprint, so our market activities develop and fall into the following four sub-brands or 'personalities' that reflect new market and channel opportunities. The benefit to all is to clearly differentiate our product offering and direct it toward intended target markets. These are two skills usually conspicuous by their absence in generic marketing and will ensure improved collective benefit and individual brand profile.

(AWBC, 2007a).

The four sub-brands and their characteristics are

1. *Brand Champions*: The 'standard bearers' of Australian wine. 'Category champions, popular premium brands, audacious commercial newcomers and wineries that aspire to a mainstream presence in either the Retail or Restaurant channels' (AWBC, 2007a)
2. *Regional Heroes*: focussed towards the development of regional identities under the Australian wine brand umbrella that illustrate varietal choice and/or styles linked to place
3. *Generation Next*: focussed towards innovation in winemaking (new blends), viticulture (new varieties) and marketing (packaging and communication)
4. *Landmark Australia*: focus on Australian 'ultra-premium collectables and image makers' (AWBC, 2007a).

See AWBC: <http://www.wineaustralia.com/>

One way that this can be done is to consider the various elements of wine marketing at each of stage of the wine value chain. In this text we introduce 8 Ps of the wine marketing mix that will help readers identify and understand the different elements that are important to wine marketing and we will apply a number of these Ps at each stage of the value chain.

## The 8 Ps of the wine marketing mix

Traditionally marketing texts have used McCarthy's (1960) 4 Ps to describe the marketing mix: product, pricing, place and promotion. Others have extended these Ps to also include: public relations and political power (Kotler, 1984); people, physical evidence and process (Magrath, 1986) and packaging (Sin, 2006). There are also many different ways that each of these elements are interpreted and in some cases their meaning is widely debated. These Ps are also applied across a wide range of marketing situations but are not necessarily all applicable to wine marketing and/or can have a number of different connotations when used in the context of wine.

Table 1.2 shows the focus of the 8 Ps of wine marketing and how they might be applied. These elements are sometimes quite similar to the traditional marketing definitions, but in each case they have been altered to be more directly applicable to wine marketing. *Place*, for example, is an important element of wine production, consumption and marketing that has too many strong connotations to be used in its traditional marketing sense. One of the core concepts associated with wine is *terroir*, which is a French term with no literal English translation that describes how all elements of a place (natural and cultural) combine in a way that cannot be replicated in any other place. It is what gives wines their complexity and it breathes life into it, giving wine its soul (see Chapter 10 for a more detailed discussion of *terroir*). The traditional use of place in marketing also tends to be more suggestive of a supply chain (i.e. it is about process and cost) rather than the value chain concept espoused here.

Planning is often a given in traditional marketing and it could be suggested that this is in fact what marketing is all about. However, it is our experience that for many wine producers and some others in the value chain (especially wine retailers and restaurateurs) marketing planning is not given the level of attention that it should (Box 1.3).

**Table 1.2** 8 Ps of the wine marketing mix.

	Traditional focus	Wine marketing focus	Wine marketing application
Product	<ul style="list-style-type: none"> <li>• Actual, core and augmented</li> <li>• Quality</li> <li>• Attributes</li> <li>• Brand</li> </ul>	<ul style="list-style-type: none"> <li>• As for traditional                             <ul style="list-style-type: none"> <li>– greater emphasis on the augmented product</li> <li>– increasing emphasis on understanding the product from the perspective of consumer needs</li> <li>– co-creation</li> </ul> </li> <li>• Applications of sense of place                             <ul style="list-style-type: none"> <li>– traditional definition is considered to be more production driven</li> </ul> </li> <li>• Location of business</li> </ul>	<ul style="list-style-type: none"> <li>• More than just the wine, especially at the winery:                             <ul style="list-style-type: none"> <li>– wine service</li> <li>– food matching</li> <li>– consumer experience</li> </ul> </li> </ul>
Place	<ul style="list-style-type: none"> <li>• Distribution</li> <li>• Retail outlets</li> <li>• Warehousing</li> <li>• Sales territories</li> </ul>	<ul style="list-style-type: none"> <li>• Applications of sense of place                             <ul style="list-style-type: none"> <li>– traditional definition is considered to be more production driven</li> </ul> </li> <li>• Location of business</li> </ul>	<ul style="list-style-type: none"> <li>• Application of <i>terroir</i> and geographically designated origins                             <ul style="list-style-type: none"> <li>– Country/region of origin</li> <li>– regional characteristics/appellation</li> <li>– winery sense of place</li> <li>– connection of consumer to the intangibles of place</li> <li>– environmental dimensions of place</li> </ul> </li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• Costs</li> <li>• Distribution and retailer mark ups</li> <li>• Discounts</li> </ul>	<ul style="list-style-type: none"> <li>• Adding value to consumers rather than based on costs</li> <li>• Traditional understandings augmented with greater knowledge of what provides value for customers</li> </ul>	<ul style="list-style-type: none"> <li>• Pricing based on                             <ul style="list-style-type: none"> <li>– rarity and novelty</li> <li>– quality (as determined by the consumer)</li> <li>– place (appellation or origin)</li> <li>– service (restaurants)</li> </ul> </li> </ul>

(Continued)

**Table 1.2** (Continued)

	<b>Traditional focus</b>	<b>Wine marketing focus</b>	<b>Wine marketing application</b>
Promotion	<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Sales promotion</li> <li>• Personal selling</li> <li>• Publicity</li> </ul>	<ul style="list-style-type: none"> <li>• As for traditional                             <ul style="list-style-type: none"> <li>– but account for different actors in the value chain</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Different for:                             <ul style="list-style-type: none"> <li>– Winery</li> <li>– Intermediary</li> <li>– Retailer</li> <li>– Post retail</li> <li>– Region</li> <li>– Integrated wine businesses</li> </ul> </li> </ul>
Packaging	<ul style="list-style-type: none"> <li>• Design</li> <li>• Labelling</li> </ul>	<ul style="list-style-type: none"> <li>• As for traditional                             <ul style="list-style-type: none"> <li>– PLUS bundling with other products</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Traditional:                             <ul style="list-style-type: none"> <li>– labels, bottles, etc.</li> </ul> </li> <li>• Bundling:                             <ul style="list-style-type: none"> <li>– Tourism products</li> <li>– Food and wine matching</li> <li>– Event programming</li> </ul> </li> </ul>
People	<ul style="list-style-type: none"> <li>• Service creators/providers</li> </ul>	<ul style="list-style-type: none"> <li>• As for traditional                             <ul style="list-style-type: none"> <li>– including all actors in value chain, but also recognising role of champions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Cellar door staff</li> <li>• Restaurateurs and waiters</li> <li>• Sommelier and bar staff</li> <li>• Key actors</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing planning</li> <li>• Value chain planning/strategy</li> <li>• Understanding business environment</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing plans and strategies</li> <li>• Value chain strategy</li> <li>• Research</li> </ul>
Positioning	<ul style="list-style-type: none"> <li>• Attempting to control perceptions of the product</li> </ul>	<ul style="list-style-type: none"> <li>• As for traditional                             <ul style="list-style-type: none"> <li>– complicated by number of intermediaries</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Value chain strategy</li> </ul>

### Box 1.3 How *not* to plan for a new winery

This fictitious example is not intended to reflect any single winery's approach to marketing and selling their wine when establishing a new winery. However it is drawn from a combination of real world examples observed by us over the past 10 to 12 years of researching wineries. In fact many of the aspects of this example are far too often repeated in wine regions around the world, but especially in the New World, where becoming a wine producer is a middle-class romantic dream.

*The Dream:* Nigel Poyndexter purchases some land in the Yarra Valley wine region near Melbourne Australia with the intention of 'planting a few grapes' so that he can make some wine to show off to his friends with a little left over that he will sell to cover the production costs. He pays a premium for the land because it is right next door to a famous vineyard and he does not get any advice from viticultural or winemaking consultants [mistake #1].

*Living the Dream:* Nigel plants a few hectares of grapes, manages them himself on weekends and holidays for the first 12 months [mistake #2]. However he soon realises that his busy professional career does not allow him the time that he needs to tend the vines, so employs a consultant viticulturalist to manage the grapes for him. The consultant says that there are some issues with the soils on the site and recommends that some of the grapes be moved and Nigel pays him to move them.

*Honeymoon Period:* After around three years Nigel has some grapes. He thinks that it might be a good idea to try and make some of his own wine at this stage [mistake #3], but he has too few grapes for any contract winemaker to deal with as a stand-alone wine. He is forced to sell his grapes to a larger, well-established winery at less than market rates [mistake #4].

*Fruits of Your Labour:* After five years Nigel is nearly in full grape production, and over the last two years he has planted an additional 20 hectares of grapes [mistake #5]. He now has enough wine to make his own label. He contracts the winery that he has been selling his grapes to and they make one barrel (300 bottles or 12 cases) into Nigel's own label. Nigel also spends several thousand dollars paying a design company to design a name and a label for his bottles: *Mount Misery* being the result [mistake #5]. Nigel keeps five cases of *Mount Misery* for himself and sells the rest to friends at cost [mistake #6]. Nigel's friends love it so he decides to increase production of *Mount Misery*.

*Into a 'Lifestyle Career':* In year seven Nigel is still selling most of his grapes to another winery, but he now has around 300 cases of *Mount Misery*. Last year he had 100 cases (1200 bottles) and managed to sell all of these to friends and a couple of local restaurants. With 300 cases, he now realises that he has to make a more directed effort to market *Mount Misery* so he quits his job and concentrates on selling his wine [mistake #7].

*Early Success (a.k.a false sense of security):* It's now year eight and last year *Mount Misery* managed to sell all 300 cases as they won a gold medal

at the Yarra Valley Wine Show and a distributor decided to put *Mount Misery* on her portfolio and she duly sells 250 cases. Despite the fact that *Mount Misery* is far from making a profit (as they are servicing a very high level of debt) Nigel is buoyed by the enthusiasm from the distributor and the fact that he has managed to sell everything and he decides to go it alone [mistake #8]. He starts building a winery [mistake #9] with a cellar door/tasting room and café [mistake #10]. He also increases production to 1000 cases, while still selling grapes to other wineries [mistake #11].

*Reality Bites:* Year 10 and *Mount Misery* has just completed its first solo vintage and they have 3000 cases of wine to sell. Last year was a poor vintage and the distributor struggled to sell 700 cases of the 1000 they produced. Nigel sacks his distributor and tries to go it alone again [mistake #12]. He spends three months and tens of thousands of dollars travelling to major export markets [mistake #13] but he has little luck as they have too many wines on their portfolio from Australia and are now finding it hard to sell the varieties and styles of wine that *Mount Misery* is producing. In desperation Nigel slashes his trade price [mistake #14] to below cost just to have some turn over. A major domestic supermarket chain buys 1500 cases [mistake #15], but he discovers that they further discount his wine as a 'loss leader'. This in turn has a negative impact on cellar door/tasting room sales, as visitors are reluctant to buy because they know that they can buy it from the supermarket for 35% less than Nigel sells direct to the public. The only saving grace is that Nigel manages to sell 1000 cases for his original asking price via an importer in Brazil [mistake #16]. At the end of the year, however, the importer discovers that he could have bought it from a supermarket chain for much less and he unceremoniously dumps Mt Misery from his portfolio.

*End of the Dream:* It is now year 13 and Nigel has struggled through the last two vintages by discounting [mistake #17] and picking up the odd distribution deal in the export market. He has not been able to recover his price following the major discounting of year ten and he is now faced with the inevitable and he is forced to sell up. His initial investment of a few hundred thousand dollars 13 years prior has now ballooned to around \$2 million, while the value of the vineyard and grapes is far less than it should be because of poor decisions made ten years prior. The brand itself is also worthless and the best the Nigel can hope for is to minimise his losses.

All of the mistakes above could have been avoided by using a market-driven approach and saved Nigel a lot of money and perhaps even turned growing debts into profits. Some mistakes are not in themselves mistakes, but rather the lack of market analysis and planning makes them a mistake. For example, Mistake #10 (the development of a cellar door and café) could have been a major positive for *Mount Misery* if Nigel had undertaken research into the wine tourism market in the Yarra Valley, their needs, how to reach them and how to distribute the wine tourism product.

## How this book works

In this chapter we have highlighted the complexity and significance of the wine supply/value chain. This book is therefore organised to address a cross-section of issues throughout the chain. As such the chapters are organised with both the value chain and 8 Ps in mind (see Table 1.3). This application across the value chain is also designed to demonstrate how the principles of an experience-driven approach can be used by different players in the value chain and not just wineries.

As is evident in this chapter, this book also has a series of boxes with real world examples of 'how to' apply some of the principles discussed in the chapter. There will also be 'how not to' examples that will be based on observations of the real world, but which may be exaggerated and/or slightly altered in order to make the lessons very clear. Each chapter will also conclude with a series of short practical wine marketing insights.

**Table 1.3** The 8 Ps in each chapter

	<b>Chapter 1 Introduction</b>	<b>Chapter 2 International business environment</b>	<b>Chapter 3 Production processes</b>	<b>Chapter 4 Cellar door</b>	<b>Chapter 5 Intermediaries</b>	
Product	X	X	X	X		
Place	X		X	X	X	
Pricing	X					
Promotion	X		X	X	X	
Packaging				X		
People	X			X	X	
Positioning	X	X	X	X	X	
Planning	X	X	X		X	
	<b>Chapter 6 Retailing</b>	<b>Chapter 7 Licensed premises</b>	<b>Chapter 8 Events</b>	<b>Chapter 9 Wine brand image agents</b>	<b>Chapter 10 Marketing cooperation</b>	<b>Chapter 11 Conclusion</b>
Product	X	X	X		X	X
Place					X	X
Pricing	X	X	X			X
Promotion	X	X	X	X	X	X
Packaging	X		X		X	X
People	X	X	X	X	X	X
Positioning	X	X	X	X	X	X
Planning	X		X	X		X

As understanding the wine consumer and their behaviour is critical to effective wine marketing, there are several wine consumer behaviour insights throughout the book. These will relate directly to the topics being discussed in the chapter and will be drawn from research undertaken by a wide range of researchers from around the world. Given Lockshin and Spawton's (2001) assertion that around half of all research into wine marketing comes from Australia, however, many of the examples will come from these two countries.

Before entering into discussions of the various elements of the value chain, Chapter 2 provides more detail on the international context for the wine trade. This includes more discussion of a range of institutional and legal frameworks from around the world and figures on the production and consumption of wine around the globe. Chapter 3 highlights the significance of the production process as an element of wine marketing, which has hitherto been largely ignored in wine marketing literature. In Chapter 4, we explore several layers of marketing opportunity at the cellar door including direct sales, relationship marketing, brand building and using it as a place to gather market intelligence. A range of different intermediaries make up the next part of the value chain and these are discussed in Chapter 5, relationship marketing also being a key element of the discussion in this chapter. Various retail outlets are most likely to be the point of sale to the end consumer of the wine and these can include small specialised retailers right through to vertically integrated multinationals such as supermarket chains. At all retail outlets the 'servicescape' is an important element of wine marketing and this is one of the core themes of Chapter 6. Licensed premises have the potential to add the most value for wine consumers as they are often the site of special occasions, almost always involve experiential consumption and may involve a dining experience and these are discussed in Chapter 7. There are a range of events that can add real value to the wine value chain. Chapter 8 explores a range of these events including those primarily targeted at the wine trade, as well as those with more of a consumer focus. Chapter 9 moves away from the value chain to explore how various external image formation agents (i.e. advertising, media, shows and critics) can influence perceptions of a wine brand. The penultimate chapter discusses the value of marketing cooperation amongst wineries and with other sectors such as tourism. In doing so Chapter 10 explores some of the differences between New World and Old World approaches to cooperation including some discussion of the concept of terroir and how it has driven Old World wine producers. Chapter 11 concludes the book with a discussion of some of the themes that



emerge throughout this book, as well as discussion of the future of wine production and consumption through to 2015.

## Chapter summary

This chapter has introduced the reader to several core concepts that are used as a framework for what follows. In particular it has highlighted the nature of the wine industry around the world and established the need for the adoption of a more market-driven approach. It has also described the complexity of the wine supply chain and suggested that, by taking an experiential approach to its management, this can be perceived and utilised as a value chain. Finally the chapter has introduced the 8 Ps of wine marketing: Product; Place; Pricing; Promotion; Packaging; People; Positioning, and; Planning.

## Further reading

Barclay, V. (2001). Is Your Winery Production or Marketing Driven? *Wine Business Monthly*, 8(9), <http://www.winebusiness.com/html/MonthlyArticle.cfm?dataId=11390>.

*An introduction to some of the key aspects of a market-driven approach for wineries.*

Charters, S. (2006). *Wine and Society: The social and cultural context of a drink*, Elsevier Butterworth Heinemann.

*An introduction to the context of modern wine consumption including its symbolic and experiential value and the social and cultural context of wine.*

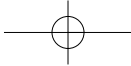
Holbrook, M.B. and Hirschman, E.C. (1982). The experiential aspects of consumption: consumer fantasies, feelings, and fun. *Journal of Consumer Research*, 9(2), 132–140.

*As the original proponent of an experiential view of consumer behaviour, this article outlines the key aspects of this way of viewing consumption.*

Lockshin, L. (2003). *Consumer purchasing behaviour for wine: what we know and where we are going*. Marchés et Marketing du Vin Cahier de Recherche (Markets and Marketing of Wine Research Paper) No. 57-03 August 2003, Centre de recherche de Bordeaux Ecole de Management, Bordeaux. Available at: [http://www.bordeaux-bs.edu/download/recherche/larry\\_Lockshin.pdf](http://www.bordeaux-bs.edu/download/recherche/larry_Lockshin.pdf).

*A good summary of the 'state of play' in wine market research.*

Vargo, S.L. and Lusch, R.F. (2004). The four service marketing myths: Remnants of a goods-based, manufacturing model. *Journal of Service Research*, 6(4), 324–335.



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*Provides a good overview of a service-dominant view of exchange.*

Virginia Wine Wholesalers Association (2000). *Intervenor-defendant VWWA's memorandum of law in support of its motion for summary judgment*. Available: <http://www.coalitionforfree-trade.org/litigation/virginia/VWWA.MSJ2.pdf>

*Legal arguments surrounding the abolition of three-tiered system of distribution in Virginia, USA.*

