CONTEMPORARY WINE MARKETING AND SUPPLY CHAIN MANAGEMENT

A Global Perspective

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Acknowledgments

We could not have written this book nor been even remotely as excited as we were to do so without the willing engagement, support, and insights from the over one hundred companies with whom we spent time. We not only learned a great deal over our six years of research but developed genuine friendships. Having conducted research in many industries over the past 20 or so years, we can honestly say that this has the most passionate, engaging, helpful, and friendly people of any industry, despite it being one of the most intensely competitive.

We conducted over 220 one-on-one interviews with winery owners, directors, marketing, and operations managers. We met with retailers, distributors, restaurant owners, and sommeliers to clarify issues we were hearing at the wineries and round out our perspectives. These people were amazing as well. However, the heart of the content focuses on wine producers. We travelled to each and every location. None of the meetings were conducted over the Internet or telephone. Overall, we met with over one hundred companies in seven countries (the United States, Australia, New Zealand, Italy, France, Germany, and Slovenia). In many cases we spent four to six hours on site observing operations, touring facilities, studying marketing materials and labels, and talking with employees informally. Of course, everyone was gracious in ensuring that we sampled the amazing wines they passionately produced.

We could tell hundreds of stories about our travels and visits, but that would be another book. We could talk about the insightful business meetings at large wineries, the lengthy tours of vineyards, homes, and chateaux, or the wonderful dog laying his head in our laps as we interviewed the staff of a small family winery in California. We could discuss the incredible friendliness of many who shared beautiful hillside luncheons with us, or tours of local castles. Several times we arrived late at night after a long day of interviews and visits, and still our hosts met with us, fed us, gave us tours sometimes by candlelight into dark wine cellars, and shared their stories and strategies. We petted goats in biodynamic wineries in Slovenia and drank numerous bottles of wine over pleasant conversations at many wineries after business was concluded. Hours were spent at wine fairs, festivals, and barrel tastings interacting with winemakers and consumers. In short, the visits were both educational from a scholastic perspective and pleasant in the way we expanded our network of colleagues and friends.

Some of our interviews were established by us through cold-calling or through personal relationships we leveraged. However, in some cases we had help. We would like to thank those who assisted us. Tatiana Chameeva of Kedge Business School essentially arranged for all of our interviews in France and spent time with us on some of those visits. Her colleague, Sophie Ghvanidze, was enormous help as well, setting up the majority of our meetings in Germany. One of our doctoral students at the University of Tennessee, Ulrich Schmelzle, assisted with a few of the Germany interviews as well. Maja Djorcev Roy, our Slovenian wine expert and friend, established all of our connections in Slovenia and accompanied us on every meeting there. Others who helped us make connections include Michael Mondavi with Folio Fine Wine Partners; Annabel Mugford of Wine Australia; Wade Jarvis, professor at University of Western Australia; Darren Rathbone of Rathbone Wine Group; Stefano Inama of Azienda Agricola Inama, and Giancarlo Pacenti of Siro Pacenti. We had criteria by which we selected the wineries we visited, and these friends aligned their contact lists with our criteria, helping us make contact and sometimes even working out scheduling details. This project would have been far more difficult to execute without them.

Along the way, we wrote and presented conference papers and wrote scholastic journal articles. At one of the conferences, we were approached to write this book. We cannot list all of the wineries we visited; however, we want to thank all of them for their gracious time and insights. Some have been referenced specifically in the book, and we want to offer special appreciation to those wineries here in alphabetical order by country:

In Australia: Lambert Estate, Moss Wood.
In France: Cantemerle, Domaines Fabre, Smith Haut Lafitte.
In Germany: Dr. von Bassermann-Jordan, Kloster-Eberbach, Schloss Johannisberg, Schloss Vollrads.
In Italy: Banfi, G.I.V., Inama, Masi, Mazzei, Melini, Musella, Ricasoli, Siro Pacenti, Zonin.
In New Zealand: Highfield Estate, Seresin, Spy Valley, Tohu, Tresillian.
In Slovenia: Kabaj.
In the United States: Acorn Winery, Duckhorn, Gustavo Wines, Folio Fine Wine Partners, Quivira Vineyards.

Data from many other wineries are used throughout the book but not specifically called out by name. Finally, we thank our families and friends, who not only envied us but also tolerated our crazy travel schedules and long hours drawing insights from the data. The contents of this book are clearly the result of an extended team effort.

Introduction

What is this book all about, and how does it differ from others in the field of wine? This is not just another wine marketing or wine business book. There are numerous outstanding examples of those available, including practical guides. In this book, we offer a few unique aspects. We do not, for example, delve into setting up tasting rooms, designing traditional advertising, or merchandizing fundamentals in retail spaces. We attempt to present something a bit different here.

First, this is the result of a six-year project exploring the wine industry from the perspective of business leaders of nearly 200 wineries, with insights as well from distributors, retailers, and restaurants, globally. We conducted over 200 in-depth, one-on-one interviews with these leaders in Australia, France, Germany, Italy, New Zealand, Slovenia, and the United States, covering businesses in a dozen wine regions.

We have spent hundreds of hours speaking with these leaders about their philosophies, strategies, and business practices. Additionally, we have spent hundreds more touring and observing operations, as well as collecting/examining over one thousand documents, websites, and promotional collateral related to marketing and supply chain management. We have combined this extensive primary data collection and analysis with reviews of other research in the industry and secondary data sources.

The insights provided here, although written in this manuscript in an approachable style, come from extremely rigorous interpretive work. Specifically, we drew on phenomenology and grounded theory research traditions to collect data using semistructured in-depth interviews, observation, participant observation, photographs, and document/artifact collection. We subsequently followed these traditions thoroughly to interpret verbatim interview transcripts through open, axial, and selective coding processes and interpretive group exercises to arrive at the best interpretations of the data. We think we have a good handle on what is going on "out there" now. We have written several conference papers and journal articles out of the data from this study.

Beyond the approach to collecting and analyzing the primary data, we focused specifically on marketing, supply chain management, and the integration of the two disciplines. These two areas are highly interrelated but not often enough discussed together. This work was conducted entirely by academics. We are three scholars with a collective experience of over 60 years reviewing research and conducting our own marketing and supply chain management research projects in highly rigorous ways to better understand business practice and offer advice on best practices.

As a result, we have pulled together some unique insights into contemporary perspectives and practices related to topics such as sustainability, differentiation, and brand storytelling of wineries, as well as labels, corporate identity, positioning, and many more. Each chapter covers an important aspect of marketing or supply chain management in today's hypercompetitive global wine business. We cover topics not covered in great depth anywhere else, such as an in-depth look at strategic selling processes, creative ways to think about social media, and innovation. Each chapter begins with a case vignette that provides insight into a particular company that relates to the topic of that chapter. For those who wish to pursue greater depth on the concepts covered, endnotes provide additional reading.

The style of the book makes it easily accessible, written using managerial language in a conversational tone. As such, this book was written for the practical student as well as the wine industry practitioner, particularly those owning or working in wineries. Although we hit on some basic but important marketing and supply chain concepts, we try to share stories from what we know and what we saw in the field that may offer the reader ideas beyond the most commonly available. You will see many important topics woven into several chapters more than once. These ideas are worth framing in multiple contexts to reinforce their importance. For example, we offer a complete chapter on relationships because they are critical, and some of the key concepts also relate to professional selling strategies. Thus, we raise them again to reinforce their importance. Similarly, brand positioning, corporate identity, and organizational foundations all interrelate. Our idea was to expose the reader to what others are doing in wineries small and large around the globe and break the reader's mind from basic ways of thinking—to excite and motivate you to do great things large and small in the world of wine marketing and supply chain management.

We think you will find this book refreshing and interesting. Each chapter opens with a short case vignette connected to the content of that chapter. We then offer content, weaving in insights we have gleaned from our research over a six-year period visiting companies in seven countries.

Image I.1 The authors (from left, Susan Golicic, Dan Flint, and Paola Signori).

It is our hope that you will find at least one idea within these pages that helps you reduce costs; improve revenues; improve sustainability for your business, the environment, or society; or improve your business relationships. Gaining just one idea is well worth purchasing and reading this book.

This book is one result of our large research project. Thanks to this impressive data collection, we analyzed all this information with a scientific interpretive approach. We have already published articles in scientific journals to also offer a theoretical contribution. Moreover, and once again, many thanks to all of the practitioners who shared with us their ideas and time. We are creating a social network to keep these relationships alive and help them to get dynamically connected and updated in a global professional network. This book is the ideal link between science and business. Enjoy the reading.

—Dan, Paola, and Susan

CHAPTER 1

A Global Overview of Wine

Case Vignette: Gustavo, United States

The 2008 American movie *Bottle Shock* offered an interpretation of the now-famous 1976 Paris wine tasting that put California on the international wine map. In that movie, a young wine maker, Gustavo Brambila (played by Freddy Rodriguez), was celebrated. Gustavo was known in the region as an amazing wine maker. By the time we engaged in our project, he had opened his own winery, Gustavo Thrace, and we interviewed him there. He now runs the winery Gustavo Wines with his wife, JoAnn.[1]

Although a 1973 wine winning a 1976 contest and marking the beginning of a wine phenomenon seems rather recent in the history of wine, especially in comparison to the eight-hundred-year-old wineries where we spent time, it certainly was a historic event that helped to usher in a wine region that fundamentally altered the global market. Gustavo, like others in California in the early 1970s who still remain, has lived through and played a part in the history of the California wine story. Not only is he a brilliant wine maker, but he also has a savvy business sense that is reflected in his selection of marketing-focused business partners. Many Gustavo Wines at the US$45 to US$85 price point would be considered at the higher end of the Pinot Noir and Cabernet Sauvignon markets. His grape selection and wine making are legendary in the region. However, he also has long carried a product line known as “The Third Bottle,” a lower-priced label at around US$20 to US$25, designed, as stated on his website, “on the premise that after you’ve opened a couple of really good bottles of wine, you shouldn’t be drinking your premium wines anymore.” These wines “are easy to drink and easy on the wallet.” The marketing savvy here with the “Third Bottle” concept is not necessarily identification of a different market segment who may want less expensive wines, a concept we discuss in chapter two, but that he has targeted a different use occasion segment—same drinker, different occasion; perhaps later in the day or evening after drinking more expensive wines. Two basic but important points here are that it is important to know your markets and to know your wine well. Gustavo makes the best possible wine out of the grapes the soil in a particular area can produce. He is authentic to the wine-making process, wine history of his region, and the terroir. But he also knows his markets and how to connect with them in a relevant and fun manner.

The World of Wine

Why does it seem that every book on almost any aspect of the wine industry begins with a statement like "Wine is one of the world's oldest products" or "The wine industry is one of the oldest in the civilized world?" It is because those facts create some very interesting phenomena. It is true, wineries are in fact some of the oldest business types on the planet, and wine making itself is even older. But why should we care? Does being an ancient business help us produce, market, or distribute wines better or even encourage us to do so differently? Or does it constrain us in some ways? It turns out that although being an old industry is not the most important characteristic of producing, marketing, and distributing wine, it certainly does have an impact on the thinking around viticulture, wine making, and branding that is sometimes positive and sometimes constraining.

This book focuses predominantly on stories about and insights into the contemporary marketing and supply chain management of wine; however, certain aspects of production are important to discuss as well within these topics. If there are two disciplines within which change has been explosive in recent years, it is marketing and supply chain management. Contemporary strategies, techniques, and capabilities are being applied within this industry as much as anywhere, and there is great opportunity to do more. This industry is so competitive globally that being unaware of these contemporary approaches to marketing and supply chain management in the wine industry is equivalent to the kiss of death for a winery. Knowledge is key. It is absolutely essential for the long-term business sustainability of wineries to remain abreast of contemporary knowledge and then develop the capabilities and assets that will enable this knowledge to be leveraged.

Let us begin by taking a look at the current state of the global wine industry and how history plays a role.

An Overview of Global Wine

Wine is produced, sold, and consumed globally. As an agricultural food product, whose quality is tied closely to the nature of the original crop (i.e., grapes), wine production is highly dependent on and influenced by geographic characteristics. In the wine industry this is referred to as terroir. Terroir is more complex than merely location. It involves topography, soil type and quality, climate, and even culture by some definitions.

Thousands of grape varieties have been cultivated to such a high level of precision that regions are known for the varietals that thrive best in those regions; the varieties of wines produced from those grapes form product categories within which thousands of brands exist. This does not by any means limit wineries from developing ways to grow grapes in regions where they are not traditionally found. In fact, transplanting vines to other regions of the world with similar topography and climate is quite common for many reasons. Some of the winery leaders with whom we met discussed at length how they were transplanting ancient vines from Europe to vineyards elsewhere such as Argentina, where climate and soil conditions were similar and appropriate. Vines have been transplanted between Europe and California several times. The main point here is that location is an important factor in wine, and as such, it also plays a role in wine marketing.

Image 1.1 Inama (Italy) volcanic soil.

Image 1.2 Schloss Vollrads (Germany), two glasses of Riesling.

Traditionally, certain countries and the regions within them are "known" for their wine production. The first that typically come to mind are the Old World wine countries, namely European ones; for example, France, Italy, Spain, Germany, Austria, Romania, and even Slovenia. Being thought of as coming from Old World wine regions implies more about viticulture and winemaking than styles of wine alone. In the Old World, tradition and terroir are considered to be important. This is often contrasted with New World wine production in countries such as Australia, New Zealand, and the United States, where science and innovation play more prominent roles than they do in Old World wine countries. This is the common thinking anyway. We argue that this demarcation is no longer valid. This traditional bifurcated view still exists in various forms, though, and as such, does impact wine marketing. That said, thinking along these traditional lines will constrain a winery at best and allow it to be crushed by competitors adopting more contemporary world views at worst. Our research bears out that many wineries are highly innovative in Old World regions, and many traditional wines and wine-making processes have been adopted within New World wine regions. We find that being an ancient winery is not a right to succeed, nor is being clever, cute, and innovative. Wine making is complex, but international wine marketing is sometimes just as complex.

Wine Trends: National and Product Category

The most popular wines in the United States in recent years include Chardonnay, Cabernet Sauvignon, Merlot, red blends, and Pinot Grigio, with Moscato, White Zinfandel, Pinot Noir, and Sauvignon Blanc each accounting for near or slightly less than 5 percent of the market. The strongest growth recently has come from Moscato, Malbec, and red blends. With 20 major wine regions in Italy that span the country, it is difficult to make a small list of "most popular" wines. Wine is everywhere, in every village, part of every aspect of the culture as are food and social relationships. It is quite common to become a fan of wines from one's own local region; for example, Soave, Bardolino, Amarone della Valpolicella, Recioto (di Soave, di Gambellara, della Valpolicella), or Prosecco may be favorites if one lives in Verona in the Veneto region, because they are typical local wines, and there are so many wineries in the area offering a large selection of those kinds of productions. Conversely, Brunello di Montalcino and Chianti Classico might be favorites in the Toscana region, even though it is not far from Veneto. Wine is connected to the land and is part of its culture, so there are local preferences for regular consumption or larger availability of typical products in local restaurants and retailers. Wine lovers and experts exceed their native borders, of course, and we are recently seeing a growing demand for (and offer of) wine from other regions and countries, together with an increase in international wine tourism.

In China, red wines have become extremely popular. Some rumors have emerged in the press that this is in large part due to the cultural importance of the color red (wealth, power, and luck). While red wine consumption dropped in the leading nations of France and Italy recently, growth in China has been powerful. Instead of selecting a specific varietal to say it is most popular in China, it is probably more accurate to claim that whatever is the most expensive at the time is what the Chinese will purchase. The Chinese nation is relatively naive in terms of wine sophistication but is also a nation of rapid learners and a potentially explosive market. A general manager of a chateau in Bordeaux, which was recently acquired by a big Chinese company, described the enormous potential of the Chinese wine market, not only for its size but also because Chinese drinkers seem to be very sensitive in wine tasting and are better than many consumers in correctly evaluating the quality/price of a wine.

But what does this tell us? How do varietals become popular? How long do they remain popular? These are questions wineries ask as they search for local and international market opportunities. Practitioners in the wine industry have numerous sources of data on trends in global, domestic, and regional markets—sources such as the Wine Institute or Italia Wine Central.[2] It is not uncommon to read that over ninety thousand wine labels were registered in the United States within one year, many from foreign producers. To say that this crowds the market and adds competition for distributors' time and retailer shelf space is an understatement. But it is reality. This is an extremely competitive industry; many small and even medium-sized wineries have looked to numerous direct distribution options and developed more online, cellar door, wine club, and social media capabilities to avoid or counterbalance the stiff competition for distributor attention, which often goes to the larger, higher volume producers or very well-known brands.

Trends in consumer preferences have long influenced grape and wine production. Consumer preferences can be understood in many ways. To begin with, we can look at the volume of wine produced around the world and note any trends there. If we begin by examining wine consumption in liters per capita, as can be found in sources such as the Wine Institute mentioned earlier, we can start to paint a picture, but not a complete one. Wine consumption per capita forces us to ask more questions. For example, would a winery pursue the markets with the highest consumption per capita? Removing the Vatican City, the top five from this list would be

- France,
- Slovenia,
- Croatia,
- Macedonia, and
- Portugal

Are these the top five one might consider in an international marketing strategy? Of course not. Even within this list, it is obvious that many differences exist in the size of the markets and the real opportunities there. A large percentage of a small nation consuming a product does not equate to a smaller percentage of a much larger nation where numerous opportunities are greater. So even at a basic level, deciding where to market one's wines internationally based on per capita consumption alone is a flawed strategy.

Instead, one might want to go after those markets growing the fastest, and place less emphasis on those declining the most. This would seem logical. Using publically available data covering 2009 to 2012, this approach would mean focusing on

- China, up 57.1 percent;
- Romania, up 41.2 percent;
- Japan, up 25.2 percent;
- Singapore, up 22.5 percent; and
- South Korea, up 22.2 percent.[3]

This may begin to have some merit as part of a strategy. However, we must keep in mind that a high-percentage growth rate of a small volume may still be a small volume not worth focusing on because the base is small. Reducing focus on the nations where per capita consumption is declining the most would mean avoiding

- Hungary, down 20.4 percent;
- Chile, down 18.8 percent;
- Uruguay, down 15.5 percent;
- Denmark, down 13.1 percent; and
- Croatia, down 12.2 percent.

This may also be wise as a starting point. Although Chile is a major producer of wine, it is not one of the top consuming nations. Growth rates tell us something about trends, but again not everything. Note that the data we show are to make a point about the process, not to provide specific data on which a winery should act. Those data a winery uses should be as current as the winery can access or finance, not come from a book.

The winery staff with whom we met who were interested in international distribution and sales, small or large, were interested in the United States, the United Kingdom, and/or China at a minimum. China is the only one of these that earned its way onto the most attractive list (increasing per capita consumption). So wineries must be paying attention to other trends. Let's look at some more.

We could look at total volume to see what trends are developing. Using the same data sources, the top 20 consuming nations consume 81.84 percent of the world's wine. Within those, China, Romania, and Japan grew the most from 2009 to 2012. Spain, Argentina, and Greece declined the most from 2009 to 2012. Overall, the world consumption of wine grew by 4.5 percent from 2009 to 2012. Therefore, with some nations growing as others decline, it is important to see how the demand is shifting. China is an obvious phenomenon winery leaders are at least talking about if not incorporating into their strategies. It is growing in consumption by volume as well as per capita at a rapid rate—currently the fifth-highest consuming nation by volume—and if it remains anywhere near its current trajectory, it will eventually become the world's largest. If we assumed the same growth rates over the next two three-year periods (like those seen in the 2009–2012 period) for the United States and China, China's consumption in 2018 will be 4.36 billion liters and the United States' would be 4.3 billion liters. That would be a phenomenal growth rate continuation and is probably unlikely; however, many business analysts have long since given up underestimating China's markets and growth rates. Currently, China's promise has not panned out—2014–2015 reflects a slow down there due to economic issues. That said, slowing down to an annual GDP growth rate of near 7 percent is a powerful statement; the United States at 3–4 percent would love to have an annual GDP growth rate of 7 percent. However, this represents the lowest growth rate in six years for China.

We do not spend a great deal of time discussing China specifically, because the marketing and supply chain strategies we discuss in this book are not dependent on anything unique about China as a market or supplier. However, many winery leaders around the world with whom we have met trying to figure out what to do about China were initially frustrated at a few Chinese buying and consumption habits. Specifically, we have heard a great deal about Chinese distributor, retail, and restaurant buyers not being very sophisticated in the depth of their understanding of wine viticulture, styles, and varietals, focusing more on secondary data sources such as various rating systems indicating particularly high quality wine labels and vintages. This desire for only the highest quality wines, as stipulated by opinion leaders, combined with their high demand relative to product availability meant the Chinese buyers wanted to purchase all that was available from certain wineries. This may be good from a financial standpoint, but for wineries wanting to meet the demands of other loyal international customers and maintain a presence in other markets cultivated over many years, this posed a dilemma at times. These winery leaders spoke of trying to educate Chinese buyers about tradition, terroir, the science of viticulture, and so on in order to influence the manner in which Chinese customers were making their decisions.

In addition to buying styles, consumption habits differed in China. Stories of high quality wine being mixed, in some cases with carbonated beverages, made many winery leaders shake their heads in disbelief. But as with any market, there are always challenges both educating a market and understanding and adapting to it. It is certain that China, like most nations where wine is consumed, will eventually represent a complex, diverse market with many consumption segments and distribution options, some more sophisticated than others. Therefore, beyond making note of the sheer size and growth rate potentials of China, the marketing and supply chain strategic approaches do not change. Their total volume may definitely influence the varietals that become popular at an aggregate global level. Presently, we envision that other wine-consuming cultural traditions and trends will influence China's consumption more so than the reverse. Specifically, we do not envision varietals becoming popular first in China and then expanding into other more mature markets like the United States, Italy, or France.

Looking at trends in varietals gives us even more information. Let's look briefly at a bit of Australian wine growth in the United States. Back in 2002, a large US private wine producer teamed up with Australian wineries from four Australian wine regions rapidly becoming more internationally known (Barossa Valley, Riverland, Sunraysia, and Langhorne Creek) to create and distribute the Black Swan label within the United States. At that time, Black Swan was positioned as a midquality wine highlighting "great wines, at a great price, from a great place."[4] The growth rate of Australian wines was phenomenal in the late 1990s and early 2000s. Australian wines were outpacing every other import nation, more than double that of Italy and seven times that of Germany. Shiraz, an Australian varietal, was growing at 66 percent per year in the United States at its peak around 2002, 50 percent faster than Pinot Grigio, another popular varietal, which was growing at 40 percent annually, and much faster than Petit Syrah, Sangiovese, and Pinot Noir. Under the Black Swan label were Shiraz, Chardonnay, Merlot, and Cabernet Sauvignon wines. The brand was positioned as a table wine whose target market was adults ages 25–54, with a household income of US$65,000 and up (in 2002), well educated, and consuming wine once per week or more.[5] Today, Black Swan is still positioned on their website as a table wine representing the "marriage of bold adventure and elegant sophistication." It is now in 2015 one of the more successful mid-to-lower-priced table wines in the United States designed for everyday consumption. It was able to reach this point through the US corporation's sophisticated marketing and distribution expertise and infrastructure. That said, the brand is positioned independently and will not be found in the list of nearly 75 brands identified on the parent company's website. This parent company, one of the largest family-owned wineries in the United States was one of the first to introduce modern marketing, brand management, and merchandizing to the wine industry.

Around this time frame of 2002, Australian wines were exploding in popularity. Another now well-known table wine brand, Yellow Tail, produced by Casella Wines Pty. Ltd. based in Yenda, Australia, had become the number one imported wine in the United States by 2003. Just prior to that time, Casella was using W. J. Deutsch & Sons for marketing and distribution with 112,000 cases of Yellow Tail sold in the United States annually in 2001. Once Costco, a very successful warehouse-club retail chain in the United States, began to sell the brand, sales exploded. In 2005, 7.5 million cases were sold, more than all French imports combined.[6] Yellow Tail is priced as a value brand in the United States and does not directly compete with Black Swan, which is at a higher price point and markets to a different consumer, sponsoring ballets of the same Black Swan name, for example. However, the two labels speak to the excitement around Australian wines at the time. By 2001, several larger Australian wineries such as Lindemans, Rosemount, and Penfolds were extremely successful in the United States This success spoke to the demand for New World wines over anything seeming pretentious in the United States, especially by a younger demographic

Wine trends by varietal are reported regularly by various industry associations. Wine shipments to the United States, including sources from wineries within the country in well-known regions in California and Oregon, grew 3 percent between 2012 and 2013 to 375.2 million cases, representing 21 consecutive years of volume growth. California wine represents 57 percent of the United States volume. This phenomenon of a nation consuming mostly its own domestic wine brands is common. In Slovenia, for example, nearly 90 percent of the wine produced there is consumed locally. So the trends one seeks can often be those forming close to home.

The point is not so much for a winery to use the data we share here for specific marketing decisions, but rather to be aware of some historic trends and realize that keeping up with them is critical. It is not only critical for marketing efforts; it is critical for managing up- and downstream relationships. There are many sources for monitoring what styles of wines consumer segments prefer, such as *Who Drinks What*, available through Euromonitor International, wine-rating services such as Wine Spectator or Wine Enthusiast, and within new mobile social media apps and other sources. Insights might begin to emerge from small news pieces, such as one that recently noted that the Millennial generation (those born between the early 1980s and early 2000s) are drinking less wine in total volume than other generations, but the wines they drink are of higher quality, fitting more of a premium category, reflecting their higher education levels and discerning tastes.[7]

Wine Production

How does wine consumption relate to wine production? The nations producing the most wine globally are listed in Table 1.1.

Notice that the United Kingdom, the sixth-highest consuming nation by volume, for all intents and purposes does not produce any wine of its own. Thus, rather than representing one of the nations where a vast majority of the wine consumed is produced within that same nation, wine in the UK must mostly be imported. This obviously affects its market price and makes the UK

Table 1.1 Wine production by top 15 producers in 2011–2014 (liters 000).

Nation	*2011*	*2012*	*2013*	*2014**	*% of World Production 2014*
France	5,076,400	4,105,900	4,201,600	4,669,800	16.75%
Italy	4,227,200	4,381,600	4,449,000	4,473,900	16.05%
Spain	3,339,700	3,112,300	4,270,000	4,162,000	14.93%
United States	2,692,400	2,981,100	3,234,300	2,230,000	8.00%
Argentina	1,547,000	1,177,800	920,000	1,519,700	5.45%
Australia	1,109,000	1,187,000	1,092,000	1,200,000	4.30%
South Africa	1,046,300	1,055,000	1,097,200	1,131,600	4.06%
China	1,156,900	1,381,600	1,170,000	1,117,800	4.01%
Chile	966,500	1,254,000	1,282,000	1,050,000	3.77%
Germany	922,300	901,200	830,000	933,400	3.35%
Portugal	561,000	630,800	674,000	619,500	2.22%
Russia	635,000	640,000	640,000	600,000	2.15%
Romania	405,800	331,100	427,600	409,300	1.47%
New Zealand	281,400	269,000	345,000	320,400	1.15%
Greece	275,000	311,500	370,000	290,000	1.04%
World Total	**27,058,285**	**26,521,012**	**27,864,100**	**27,880,000**	

Source: Combined data from Wine Institute, World Wine Production by Country, Table 3 http://www.wineinstitute.org/resources/statistics, August 3, 2015, and Italian Wine Central, "Top Fifteen Wine Producing Countries," http://italianwinecentral.com/top-fifteen-wine-producing-countries-2014/, accessed August 3, 2015 [* 2014 data were estimated].

very attractive to many producers. Conversely, one can sit down in almost any small local restaurant in almost any village in Italy or France and be served a decent if not great glass of wine from any number of local or regional wine producers at a very low relative price. For example, there are approximately seven thousand wine producers in the region of Bordeaux, France, alone. Compare this to approximately four hundred wine producers in Napa Valley, California, and just under six hundred wineries in the Veneto region, one of the largest wine producing regions in Italy. In heavy wine producing regions, choice is not a problem. Therefore, marketing is.

Just under 89 percent of the world's wine is produced in the 15 nations listed in Table 1.1, with France and Italy still in the lead. Although comfortably ranked fourth in wine production volume, the United States still produces only half as much as does Italy. Looking at the trends across all 15 nations, wine production slowed in 2012 then began to recover to near their 2011 levels. Keep in mind that some of the wine consumption and production declines can be attributed to the global economic recession shifting demand to lower priced wines as well as other beverages. Some of the changes, though, can also be attributed to shifts in demand from

Image 1.3 Banfi Winery. (photographed by Lucio Gelsi)

some specific varietals to others. Production levels also declined in some if not most nations in 2012 as production grew in just a few, most notably a 44 percent increase in Chinese wine production at that time. Since 2012, production in China actually declined. Production in the United States increased consistently until 2013 and then declined. A primary point is that despite production changes, globally nations seem to move together with the top producing nations remaining essentially the same. So it is unlikely that we would see the rapid emergence of an entirely new wine producing nation in total volume; however, some new regions can gain consumers' attention due to the rate of production increases and interest they generate. For example, we have seen significant increases in production volume from nations such as Georgia, Hungary, Canada, Belarus, South Korea, and Brazil.

If we look at leading brand suppliers of wine by volume to the United States, the top eight in 2012 were

- E&J Gallo,
- Constellation Brands,
- The Wine Group,
- Trinchero Family Estates,
- Treasury Wine Estates,
- Ste. Michelle Wine Estates,
- Jackson Family Wines, and
- Diageo Chateau & Estate Wines.[8]

One category split that ought to be mentioned at this point is bulk wine versus everything else. Bulk wine refers to wine produced for a third party who will label, market, and distribute it. The bulk wine producer may or may not perform the bottling operation. This practice in other consumer goods is known as private label production. When a retailer, for example, sells its own brands, these brands are known as private label brands. The retailer rarely owns and operates its own production facilities. Often the same producers selling national brands will form contracts with retailers to produce additional products, in this case bulk wine, for the retailer to sell under its own brand names. Some wineries, however, produce bulk wine solely.

We visited one winery in Germany that focuses entirely on organic wine and is in fact the largest organic bulk wine producer in Germany. This winery is a family-owned business whose success as an organic bulk wine producer primarily emerged precisely out of sound business savvy and market-opportunity insights. The owner saw less market pressure in the organic wine category, saw fewer competitors, and realized that converting to organic processes from traditional was not that daunting given how his wine was being produced at the time. A primarily bulk wine producer stays close to market demands and trends largely through interactions with immediate customers who often dictate, or at a minimum strongly influence, the varietals desired based on their own market assessments. This German winery has focused much of its efforts on production efficiency and effectiveness, investing in equipment that is three times as efficient as standard equipment, for example. By also being rather handy in equipment maintenance—building parts in their own shop, for example—they keep downtime to a minimum. Their large facilities have roofs entirely covered in photovoltaic panels that produce all their electricity. Wine is pure business for this impressive winery, and marketing equates to face-to-face selling and relationship management.

Summary

This chapter was to help set the stage for the remainder of the book. It should be apparent that marketing wine in such a hypercompetitive global environment is a constant challenge full of choices. Should a wine producer sell bulk or bottled wine? Does it want to focus on volume at a low-to-mid price point or on being a luxury good in the relatively more expensive markets? Where are the market opportunities within local domestic markets or international ones? If international ones, which ones should a winery explore and penetrate? Of those chosen, what are the supply chain implications, enablers, and barriers to accessing those markets? What are the consumer trends in those markets, and are they stable enough for the winery to leverage its current assets to meet current and predicted consumer desires?

Despite the existence of tens of thousands of wineries, and many more wine labels, against which a winery could compete, being successful requires careful consideration of the markets in which one wishes to compete, followed by purposeful management of marketing practices and supply chain relationships to serve those markets. The remainder of the book presents some of the most critical topics in these areas by offering insights we have gleaned from our research and ideas which represent a contemporary look at ways to approach each topic area. Our next step on this journey is to discuss markets in chapter two.

CHAPTER 2

Forms of Markets

Case Vignette: Ricasoli, Italy

Ricasoli is "one of the oldest family wineries in the world, dating back to 1142," we were told as we began our discussion with the marketing director of this medium-sized, innovative Tuscan winery. But he immediately qualified that statement, clarifying that they were "much more busy fighting with Siena at that time than making wine." Wine production here is more commonly thought of as dating to the late 1800s. At that time, a Ricasoli ancestor began experimenting with wine production and invented Chianti Classico, which is not to be confused with Chianti. Different markets see various varietals differently. For example, Ricasoli knows that in the US markets, no difference is acknowledged between Chianti and Chianti Classico, when in reality there is a significant difference. In part, the difference can be seen in the exclusion of white grapes from Chianti Classico, as well as 80 percent of the wine produced from Sangiovese with the remaining 20 percent allowed to come from other red grapes such as Canaolo or "international varieties" such as Cabernet Sauvignon and Merlot. The point here is not to focus on viticulture but rather that Chianti Classico is unique and special with strict rules associated with its production and labeling. The nature of the product is often related to the markets a winery seeks to sell within.

Ricasoli is on solid ground now, producing about two million bottles each year with strong brand equity, but this was not always the case. Following World War II, the slumping economy drove the winery to be sold to a major corporation, and, through the late 1960s, its branding and marketing was extremely unfocused. The director referred to this as "the Black Period," which lasted into the 1980s after a second owner almost bankrupted the winery. Much of this can be attributed to a poor understanding of the winery's potential advantages and markets. In 1993, Francesco Ricasoli returned to the family business and purchased the winery with other investors, making this ancient winery essentially one of the youngest in the appellation. This fundamentally changed the nature of the business "from the research on Sangiovese and the vineyard up to the marketing approach."

Following discussions among themselves around trying to be a "point of reference" for Chianti Classico or a high-volume producer, they decided to start from scratch, replanting over 250 hectares of Sangiovese in a region where the average vineyard is 7 hectares. After 20 years of commitment, Ricasoli can now claim to have a standard for the appellation in Chianti Classico as well as its own registered Sangiovese Brolio clone, and the markets now recognize the superior and consistent quality of their wine. This recognition led to numerous research teams and writers visiting the winery to see what they do there. One mistake in the director's mind is to try to compete with the big wine producers of the New World, and in particular, spend time trying to compete on Cabernet and Merlot, varieties produced everywhere.

One major marketing problem the director was addressing was a lack of communication in various markets about his appellation, about Chianti Classico, and about Italian wine. He had studied markets in Hong Kong, Singapore, and India and of course the United States, where the trade is quite knowledgeable about Italian wine but not about the appellation. Everywhere, markets had different understandings of wines from the region, so one task was to find a way to understand and then educate more precisely those markets where opportunities seemed to be present. Within that task, he had a challenge to communicate why his particular Chianti Classico should be purchased over his neighbor's.

His approach to the problem at the time we met with him was to be very, very focused on medium-to-high-end-wine consumers and connect them with the place itself, its history, the vineyards, the essence and uniqueness of Ricasoli. The communication included broad market communication, including emerging markets, with a recognition that Ricasoli cannot compete on a marketing scale with wine producers ten times their size, like Antinori.

In addition, hospitality projects for visitors began to develop. "As you can see, we are in the middle of nowhere. When 40,000 customers visit each year, they come on purpose . . . if you treat them well, they become ambassadors." Therefore, they attempt to draw visitors from various geographic markets and offer services at multiple levels, such as five levels of tours depending on the nature of the guests, a chateau for lodging, the historic castle, business operations, and tasting room.

Important wine enthusiasts are offered private tours and barrel tastings. They have two levels of wine clubs, not so common in Italy. The higher-end membership of Club 1141 is currently priced at €250 annually.

Image 2.1 Ricasoli's modern tasting room.

To connect with consumer markets efficiently, Ricasoli constantly refines its website and invests in Google tools to monitor consumer responses and understand the markets. But connecting with end consumers, such as those in the United States, is a challenge for a midsized Italian winery, so rather than focusing on other Internet and mobile tools, the marketing director focuses a lot of attention on connections with trade and importers. The better ones are brought into "everything we do here," so they can understand and effectively launch new products in their markets. They use these trade partners to understand and work within specific markets uniquely.

Italy accounted for only 15 percent of their volume at the time, due in part to a poor economy and political uncertainty. So Ricasoli focused on accessing and developing relationships within foreign markets such as North America and the emerging opportunities in China, where the staff visited often to develop connections with travel agencies in order to bring in tourists. They worked with high-end public relations agencies and conducted personal visits to Asia to tap into the market of tourists going to Tuscany, a group growing in size by 10 percent annually. The director told us that in the United States, most Italian wine producers focus on places like New York, New Jersey, Illinois, Florida, California, and Texas—states with well-known key metropolitan markets. He understood very well the extreme differences between markets such as India, China, and the United States. Understanding about Italian wine, the reputation of Italian wines, and images they held all differed; distribution infrastructure differed, regulation and taxes differed, and even religion played a role. As he watched the decline of high-end

Bordeaux wines in some Asian markets, as consumers shifted from buying prestigious wines to buying wines they liked and started to seek variety, he thought Ricasoli had an opportunity to do well there in the future. The director had a clear and passionate vision for the future as he looked forward to reaching a four-million-bottle mark so that his size would place him in the top five of his distributors, allowing his wine to get the attention it needed and access markets he targeted.

Wine Macromarkets

We can think of markets for wine in many ways. Many wineries do not take advantage of the ways markets can be viewed. Because of that, they wind up competing head-to-head within crowded markets using strategies and tactics similar to those of their immediate competitors.

Wine consumers come in many forms depending on their consumption styles and tastes, which are in part influenced by local, regional, and national culture. For example, China is painted as an emergent wine market as if it were one homogenous opportunity. In reality, grape wine (as contrasted with rice wine, historically a part of Chinese culture) does not have a long history in China, and the consumption patterns that have so far emerged are far from what established wineries in Europe and America are used to. Within China, there are many different market segments. There is plenty of room for many wineries if they can work with the various administrative environments. The various markets in China have proven fruitful for some foreign wineries and an enigma for others. The theme we kept hearing in our research into wineries trying to penetrate the Chinese markets is that risks are high due to potential leadership changes, which can and have drastically affected the way wine is marketed and distributed. "Just when you think you have a handle on the processes—they change."

The easiest route for most wineries has been to gain a presence in a few of the major metropolitan areas such as Shanghai, Chengdu, Hong Kong, and Beijing, and their neighboring advanced business cities such as Tianjin, Hangzhou, Guangzhou, Dongguan, and Shenzhen. Then of course there is Taipei. Without getting into channels of distribution here in this chapter, Chinese markets in general have been characterized by a high awareness of and desire for prestige, and when it comes to wine, prestige is indicated by price as well as by respected rating systems. Absent a deep understanding of wine, many Chinese consumers and business customers have been described as simply purchasing the most expensive and prestigious wines they could find. In some cases, buyers would request every bottle of a specific vintage a winery had in stock. Wine was used as a gift or as a social lubricant and symbol in large social gatherings. We were told about wine being mixed with other drinks at times, much to the producers' dismay.

The ubiquitous gifting and extravagant entertaining seems to be waning. Times are changing, and Chinese markets are rapidly becoming more sophisticated and selective about wine purchasing and consumption. However, although the volume potential is high and the wealth exists for selling wines at almost any level in China, across the nation it is still an adolescent in terms of wine understanding, consumption, and production history. This is despite archeologists finding evidence of grape-based fermented drinks in northern China that dates to nine thousand years ago.

When we think of markets we should also think of market segments. Wine markets exist everywhere. In chapter one, we showed where the most wine is consumed. By and large, though, many smaller wineries around the world simply sell to local markets directly or through local retailers and restaurants. The vast majority of wine sold globally—well upward of 80–90 percent—is consumed within one or two days of purchase. That alone tells us something about wine markets.

The next step after establishing a local presence is usually to branch out into the rest of the winery's domestic nation. For the most part, in this book we focus on bottled wine as opposed to bulk wine. The volume of bulk wine is significant, and there are some marketing aspects we will discuss, but for now let's remain focused on bottled wine. There is also the luxury, collector market, where wine is aged, held for its appreciation value as an investment, and traded. We do not address this small percentage of the industry either. Here we are focused primarily on bottled wine purchased with the intention of consuming it soon or in the coming years, but eventually. This is the product produced by the wineries that make up the majority of the industry concerned with marketing and supply chain challenges.

The challenges of competing within one's own market include competing against other domestic producers as well as against imports. Conversely, wineries that expand beyond their borders by exporting become import competitors to the wineries within those countries to which they export. In each of these cases, a winery can leverage its origins (i.e., its country of origin).

Country of Origin

Wine consumers around the world are very similar in how they can be segmented. This statement may surprise you. But let's look more closely. For example, many wine consumers are concerned about where their wine comes from. When the home nation associated with a wine is important in helping to create an image in consumers' minds about its quality or character, it is known as a country-of-origin effect, or region-of-origin effect for particular wine regions. Country of origin can work for or against a specific winery depending on how it is working for that market segment as well as how that winery is trying to position its brands and itself. There are relationships between a winery's image, its source nation, and the images of its brands. In this case, we focus simply on how country of origin works. If a consumer desires a high-quality Brunello, for example, then it is important that the wine come from Italy and possibly even only the Montalcino region. For this reason, high-quality wines from this region highlight their location and even the DOCG (Denominazione di Origine Controllata e Garantita) designation. We will discuss this appellation system in greater detail when we discuss brand positioning in chapter seven. Some of Italy's best known and most expensive wines come from this region and carry this designation. However, a fine wine also from Italy but a different varietal, such as Soave or Valpolicella from the Veneto region, trying to compete for this foreign consumer's attention will not benefit from this Italy country-of-origin effect, nor will Riesling from Germany. However, if a consumer desires any Old World wine, then wines produced in Italy, France, Spain, or Germany all have an equal chance to leverage its country of origin. Conversely, Slovenia, despite producing wine for twenty-four hundred years, has a very small international wine reputation and therefore suffers from a nonexistent or worse, possibly negative, country-of-origin effect in some markets, such as the average US consumer markets. The country-of-origin effect was leveraged quite well several times by table-wine brands such as Yellow Tail and Black Swan, both of which emphasized their Australian origins.

So one of the first characteristics a winery can leverage in its marketing is its country of origin, but it must first identify markets where there is current or potential interest in wines from that nation. Consumers go through phases where they desire wines from specific nations and/or a specific varietal, which is often correlated with country of origin. For example, Malbec is mostly associated with Argentina today, largely due to grape production that expanded there over the years, and regional marketing efforts. However, the Malbec grape was originally grown in southwest France. Much of its reputation died away after the mid-1950s when frost destroyed the majority of crops. Malbec is grown all over the world, but currently, the Malbec varietal is highly connected in consumers' minds—associations we call mental schemas—with Argentina. Marlborough, New Zealand, is strongly associated with Sauvignon Blanc. However, Sauvignon Blanc originates from the Bordeaux region of France. Once quality wines have been established within a region, that region can become known for that varietal through effective and concerted marketing.

Concerning countries and their associated images in wine consumers' minds, wines from New World countries have an image of being more consistent from vintage to vintage due to production style. By contrast, wine production in Old World countries emphasizes the effect of the terroir, and therefore highlights the variance in a wine from the same hectares from vintage to vintage. Some consumers prefer one style over another (i.e., some like variance and intrigue while others prefer consistency and predictability). A listing of some common wine varietals and the countries they are most commonly associated with is provided in Table 2.1. Note that this table depicts common countries of association, meaning the country the average consumer tends to associate with a particular wine varietal, not necessarily correct associations.

Whether they like it or not, producers of one of these varietals but from another nation need to overcome the country-of-origin effect. Along these lines, Slovenian grape varieties, such as Ribolla and Tocai Friulano, are generally well known by wine enthusiasts, especially within Slovenia and the markets to which producers export, including Croatia, Bosnia and Herzegovina, the Czech Republic, and some of the United States. However, Slovenian wine is far less known internationally even within the United States, so trying to leverage a Tocai association with Slovenian wine, or even a Slovenian wine alone, is difficult in the United States today.

Table 2.1 Country of association for some wine varietals.

Some well-known wine varietals	*Country of association (correctly or incorrectly)*
Brunello, Bardolino, Barolo, Barbaresco, Chianti, Valpolicella	Italy
Bordeaux, Burgundy	France
Rioja	Spain
Malbec	Argentina
Riesling	Germany
Shiraz	Australia
Orange Wine	Slovenia
	Becoming confused in global markets due to numerous high-quality options
Chardonnay, Merlot, Cabernet Sauvignon, Pinot Noir	France, United States, Australia
Sauvignon Blanc	France and New Zealand
Pinot Grigio	Italian version of Pinot Gris but grown around the world

Image 2.2 Kabaj, a Slovenian vineyard.

We would venture to say that many wine consumers globally would find it challenging to even locate Slovenia on the map. So in this sense, Slovenia does not often come to mind as a wine-producing country, and when made aware of its wine, consumers are curious because essentially no preconceived country-of-origin schema exists. This clean slate might be a greater export opportunity for Slovenian wine producers than having to overcome a negative country-of-origin image.

We now move from a macroview to a microview of markets.

Micromarkets: Traditional Market Segmentation

The most common form of market segmentation that wineries rely on is demographic segmentation. Beyond that, traditionally, wineries will rely on standard behavioral and psychographic segmentation. We will discuss both forms.

Demographic Segmentation

Country of origin is not technically a way to segment markets, but rather a way to classify products. However, some consumer segments have a preference for wines from certain regions, and some are more concerned about country of origin than others, so it can also be used to segment. Additional common segmentation methods include demographic, behavioral, and psychographic. Demographic segmentation refers to using characteristics such as age, income, education, residential location (postal code), gender, and ethnicity to create distinct and identifiable groups of consumers to connect with. These are the easiest attributes to collect on consumers, and this ease makes them one of the most common ways to define markets, despite them not being all that effective in isolation. It has long been taken as a given that wine appreciation or sophistication develops with time, and therefore older consumers prefer more complex, more interesting, more expensive wines. Older and more experienced wine consumers also are assumed to seek more variety than younger consumers. It also seems to be unquestioned that white and rosé wine drinkers are inclined to be female,[1] while red wine drinkers are inclined to be male. Using these assumptions could be dangerous. Recent evidence, for example, suggests that Millennials (or generation Y, those born between roughly 1980 and 2000) are consuming more wine at younger ages than other generations have and are seeking variety and quality in ways older consumers are typically thought to. Millennials do not care about the pretentiousness of a wine nor are they frightened by it. Authenticity and relevance are the most important.

In today's cluttered market, wine producers should go beyond demographic data to identify market segments. What a winery ought to do is seek out contemporary data on current or emerging market segment characteristics either through primary research (research they do themselves) or through reliable secondary data sources. These data should then be combined with behavioral and psychographic data.

Behavioral and Psychographic Segmentation

Behavioral segmentation is based on what people actually do. Where some wine consumers drink wine every night, others drink wine only in social situations once each month. This could be correlated with a demographic characteristic such as residence (Italy versus the United States, urban versus rural) but the demographic variable is not that critical in this case. The important thing to remember here is that we are interested in grouping consumers who behave in similar ways. In this case, marketers might identify use-occasions when their wine varietal is best consumed. Some wines are paired better with some foods, and some foods are popular at certain holidays. Therefore, there will be a behavioral tendency to purchase those wines near those holidays. Other behavioral examples used to segment wine consumers include whether consumers are social-gathering drinkers, drink with a significant other, or drink alone; the frequency of wine consumption; price points usually purchased; and locations where purchases are most often made (e.g., in a grocery store, in a wine shop, online). There are many behavioral variables, including behavioral loyalty (as compared to attitudinal loyalty). But one contemporary behavioral-segmentation approach is to focus specifically and more deeply on shopping behavior; for example, details about where and how consumers shop.

Psychographic segmentation deals with consumers' attitudes, values, personalities, and opinions. Some wine consumers are variety seekers, while others are brand loyal. Some consumers think of wine almost as an extension of themselves like jewelry accessories, clothing, or automobiles, where the wine says something about who they are, while others may simply care about how it tastes. Some are opinion seekers, while others couldn't care less about ratings from Wine Spectator or any other opinion source. Solid research will uncover consumers' opinions and attitudes, which will help a producer more precisely understand how to communicate with them.

An attitude is a predisposition about a specific target "object." Consumers have attitudes about not only drinking alcoholic beverages in general, but about wine, wine regions, wine varietals, specific wineries, and specific wine labels. They have attitudes about where to purchase wine, how to consume it, and how much it should cost. These attitudes are formed through exposure to the wine itself, the winery, the winery's marketing communications, and interactions with others, like friends or consumer-opinion forums. Attitudes can be approximated by thinking of it this way: a consumer determines if the attitude object (wine, winery, and so forth) has a specific attribute, makes a positive or negative judgment about that attribute, and then combines all of the attribute-judgment pairs to form an overall positive or negative attitude toward that object. There are decades of research on attitude formation and change. Quite simply, if you can change consumers' beliefs about a wine attribute and/or their judgments about the benefits or costs of that attribute, you can change their attitude. Marketing plays a role by convincing consumers that a brand, winery, or region possesses certain attributes and emphasizing how positive those attributes are for wine enjoyment. However, market research can use these attitudes to group consumers into segments with similar attitudes so that marketers can target segments that seem appropriate for their wines.

Some wineries do not pay much attention to markets beyond location; that is, they do not think much more deeply than the country or retailer through which they sell their wine. Beyond that, it's mostly about identifying a reliable distributor and importer if the market is international, and convincing the distributor to spend some time focusing on their wines. They may have a good "story" about their wines and their winery, and this is what the distributor is expected to pass on, but often the focus of these wineries is on the product. We have been told many times by winemakers and winery directors, "I make what I like. If someone else likes it, they buy it. If not, maybe another one is fine for them. It's fine." This is not marketing. It may be passion, but it is not passion being leveraged. It may be necessary, but it is insufficient for growing a business.

That said, this passion for one's own wine usually is demonstrated to consumers through interpersonal interactions at the cellar door/tasting room or any personal visit to the winery. The best that can be desired in these situations is that visitors purchase wine while they are on site, seek out the brand in a retail or restaurant environment, or best of all, recommend the winery and the wines to others. Passion for one's wine is fine; in fact we would say it is essential. However, that passion will resonate more with some customer segments and some markets more than others. It only makes sense to identify those markets and then attempt to interact with them strategically—with a plan and integrated techniques.

Contemporary Market Segmentations Approaches

Marketers in the consumer packaged-goods industry and others, such as apparel, home improvement, and consumer electronics, have recognized that marketing to consumers while they are consuming and generally going about their daily lives may not be the most effective use of limited marketing funds. As a result of this realization and numerous other factors, a great deal of attention is being focused on consumers while they are in shopping mode. This and other insights have created interesting ways of segmenting and understanding consumers. One is known as shopper marketing.

Shopper Marketing and Shopper Segmentation

A fair amount of research has been trying to understand how shoppers shop under various conditions. These insights have led to some refined segmentation approaches. Remember, the reason we segment markets is to find a relatively homogenous group of people who are likely to respond to our marketing communication content and styles similarly.

This focus on shopping behavior and attitudes is part of an aspect of marketing referred to as shopper marketing.[2] Shopper marketing involves four phases: (a) shopper and retailer insights, (b) strategic planning for retailer-specific initiatives between brands and the retailers who sell them, (c) coordinated execution of these initiatives, and (d) measurement of the return on investment (ROI) of the initiatives. Initiatives can be tactical and short term as well as long term and strategic, reflecting deep relationships between a brand and a retailer. For example, a shopper-marketing initiative may be a special promotional plan involving social and other digital media, special placement and merchandizing in the store, and unique messaging for the introduction of a new wine brand within a select retailer. A shopper-marketing initiative could also involve a permanent display themed around education about organic wines, sponsored by one winery, and offered within only one retailer partner. Without covering all the details of doing shopper marketing, for now, we wish to highlight that understanding how consumers shop for wine provides companies with another segmentation opportunity. This entire discussion is consistent with Lockshin and Corsi's (2012) finding that not much new has emerged in wine consumer segmentation models—they call for more investigation into consumer responses to retailing environments and initiatives.[3]

First, let's discuss what the difference really is between consumers and shoppers. Consumers use the product (i.e., drink the wine) and are usually brand focused, while shoppers purchase the wine and are usually choice focused. Marketing communicates to consumers to develop a desire for the product, but the shopper, who may or may not be the consumer, makes the final purchase decision. The shopper is influenced by the purchasing process. Focusing on shoppers with marketing communication means helping them make a better purchase decision, whereas focusing on them as consumers means getting them excited to buy it or making them pleased that they purchased it.

Some shopper segments can be defined by time, money, and social situation. Specifically, some shoppers are pressed for time, making convenience more important than quality. Others are variety seekers, preferring to explore,

Image 2.3 Ricasoli's wine shop.

and as a result, are not pressed for time. Some people shop for wine alone, while others shop together. This affects their purchases. Finally, for some shoppers, a budget places limits on what they buy regardless of what they desire.

An important point, though, is that people do not shop the same way all the time. Depending on the situation, the same person can be a bargain shopper one day and an explorer the next. The person's need state is what often dictates the shopper behavior. Thus, shopping trips can fall into these four categories:

- quick convenience trip that is time-based
- fill-in trip to pick up a missing item
- emergency trip
- stock-up trip

The quick convenience trip is one where the shopper is pressed for time and simply identifies the most convenient location to buy a needed product, in this case wine. There may not necessarily be a focus on either quality or price. A fill-in trip may be to a specialty store, but the shopper is hunting for a specific bottle of wine that will fit a recipe or social situation. An emergency trip might look like the fill-in trip, but the mental state is slightly different. This shopper is experiencing an emergency, such as running out of Prosecco or Champagne at a party. In the fill-in, the shopper may deliberate for quite some time to get that specific bottle to fill in a gap. The emergency shopper is not only hunting for one item (or a few), but is also time pressed. And lastly, the stock-up shopper is on a trip to replenish her inventory. This trip may involve numerous wine options, or wine may simply be one of many items the shopper is buying. Decision-making is often more deliberate in a stock-up trip.

Even if formal data are not collected to segment one's wine consumers by shopping type, at least thinking about how one's loyal consumers likely shop or asking them about it in detail when they visit the winery can be invaluable. It could at least tell a winery with what kind of retailer they should partner; not all retailers who sell wine are created equal. The shopper a retailer targets should be the same shopper the winery is targeting. Beyond retail location, knowing how consumers shop will help a winery create more relevant and inspiring packaging and merchandizing. And most important, knowing more than your competitors about how your consumers shop will help you develop long-term relationships by remaining connected to them as they search for wine and wine solutions. In this sense, a winery could offer food-pairing suggestions or information that could be fun to share at dinner parties through strategic partnerships with specific retailers. It all starts by segmenting the market to connect with the right shoppers.

Shoppers purchase differently when they are shopping for themselves as compared to when they are shopping for others. "Others" in this case might be a social situation of which the shopper will be a part, or "others" may be recipients of the wine as a gift. So it is easy to see that the same person can and does shop very differently depending on the situation. The way marketers communicate with each shopper type should differ dramatically. But why do we care? We care because if a wine brand is most often purchased after careful deliberation during stock-up trips or by explorer shoppers, both of whom spend more time processing information, a winery will want to take that into consideration when deciding which retailers to distribute through. Conversely, if a wine label is most often purchased as a table wine for immediate consumption in a casual setting, and is often chosen in a store at which the shopper stops on the way home from work, the winery would want those brands to be sold through different retail outlets than retailers catering to full stock-up grocery shopping. They will want to be on the shelf at retailers that are convenient to shoppers in that mode.

Depending on both the consumer and shopper segments a shopper falls into, price of the wine can play a role. This does not mean that everyone seeks the lowest price or the best value. In many cases, the higher the price, the more it is valued by some consumers and shoppers, again depending on the situation. So shoppers can be segmented based on one or a combination of the following factors:

- the role of time in the shopping decision
- the extent to which the shopper is caring for the family
- the extent to which the shopper is caring for himself or herself
- the role of money in terms of budget as well as quality cues
- the extent to which the shopper is in an exploratory or learning mode
- the state of the shopper's inventory levels

Understanding how consumers shop for one's wines is critical. That understanding should influence distribution modes, location, pricing, and marketing communication decisions.

Social Capital and Social Segmentation

Another contemporary approach to consumer segmentation is based on social capital. Social capital refers to how much "power" or influence someone has in his or her social networks. Some companies are spending a great deal of time and money to understand social networks, much of it existing on the Internet. These social networks show how consumers are connected to each other, highlighting stronger and weaker ties between people. Some people simply are more influential within their networks than others. Marketers like to identify and connect with key influencers in hopes of them communicating to their networks how much they like a wine or winery. We discuss far more about social media in chapter eleven. However, social media communication can be used to segment markets as well. Forward-thinking wineries are looking into how best to utilize this approach.

What Else Have We Seen?

We have met with the staff of many wineries, some of whom are decent at understanding markets, but most of whom are relatively basic in their understanding. It is a bit surprising in some ways that such a mature industry with so many tens of thousands of companies in competition with one another, that not only is market understanding on average not very sophisticated, but in many cases, marketing in any form is often not that sophisticated. That said, we have seen some outstanding wineries that were quite clever in understanding markets and marketing. Let's simply look at some examples of all forms of market understanding as we discovered it around the globe.

There is a small winey in California whose wines are produced only from estate-owned vineyards, as organically as possible, and to the highest quality level they can produce. This "luxury" winery, as they describe it, is operated by people passionate about wine. They have patience and a bit of disdain for wineries that do not have patience and respect for the product and processes required to produce high-quality wines, such as larger wineries with "revolving doors for top management." This winery targets markets where luxury is valued and exert great effort to protect their brand. They target consumers who value "curiosity and exclusivity." Therefore, they will not use a large grocery store chain as a means of reaching those markets. They will never drop their prices in order to gain market share in mass markets. Their markets are small and exclusive and found largely through word of mouth.

Contrast this with larger corporations such as Gallo, Fosters, and Diageo, many of which produce and sell other liquors and spirits in addition to wine. These companies, as one director put it, spend a great deal of money to obtain "crazy, sophisticated data" that spans a nation allowing managers to drill down into regions and zip codes to understand consumers, retailers, and restaurants. Much of this data is about what is selling, so it is stock-keeping unit data, pricing, and so on. However, the point is that the largest wineries spend a great deal of time trying to understand their markets, in large part because they serve so many different markets through a wide portfolio of brands. Most wineries do not have or desire this level of sophistication in market understanding, but something better than the average we have seen might be advised. Using traffic patterns through the cellar door is necessary but insufficient for a true market understanding.

Some wineries target tourists, in fact many do. Wine regions are beautiful places to visit on holiday, and wine is such a social product it is perfect for relaxation and education. Take Musella for example, a small winery in northern Italy in the Veneto region. Their inn, with its few but individually unique rooms, beautiful architecture, enclosed grassy garden and lawns, cooking classes, and running paths through the woods and around the vineyards augments the wine they produce and sell. Their target market is the wine tourist traveling through Verona and the surrounding villages.

Seresin winery in Marlborough, New Zealand, is a relatively small, organic, and biodynamic winery that highlights their wine's "artisan" character, their hand-picked grapes, and their passion for artistry by using a handprint as their logo. This style of marketing makes sense given the creative cinematography profession of its owner. They like customers to discover them and their unique character, which seems to beautifully blend art and science. They sell to customers passionate about boutique wines with unique stories. Customers were predominantly New Zealanders, tourists, and select markets internationally when we met with them, but now they have grown to where 80 percent of their sales are international. They spend a great deal of time studying and segmenting markets, and know precisely to whom they cater—this is the key. It is not so critical to have sophisticated market research tools to segment and understand markets. It is critical, however, to know your customers and what makes them unique, and most importantly, different from other segments of customers. Knowing this is the key to communicating with them. You need to know what they value and why, how they feel, how they think, how they shop, how they consume, what role wine—your wine in particular—plays in their lives, and what demographic variables help to define them.

Summary

This chapter provided a look at markets and market segmentation. We looked at macro and micro versions of segmentation useful in the wine industry in order to understand which markets to pursue. Within the macroview we discussed country-of-origin effects. In the microview we looked at traditional segmentation approaches and introduced the shopper-marketing concept and its implication for segmenting customers. In chapter three we will consider organizational orientations, or worldviews.

CHAPTER 3

Organizational Foundations

Case Vignette: Michael Mondavi Family Estate, United States

A winery, like any organization, must have a clear vision of who they are and what they stand for. Leaders ensure this happens in part by instilling a set of core values, a mission statement, and an idea of the culture of the organization.

We found one fine example of customer orientation when we informally visited Michael Mondavi's family winery in 2010 between other formal interviews. While there, we ended up in a nice, detailed conversation with the cellar-door manager. The more she learned about our project, the more excited she became, and ultimately said, "Michael is right outside. When he's done with his meeting, he might want to meet with you." And indeed he did. We wound up hearing fascinating stories about the Mondavi history including about his father Robert, a name quite powerful and internationally known, just as Michael is now. He also talked about his two companies, various wine labels produced with his children's involvement, and his many international connections in the industry.

Mr. Mondavi talked with us far longer than he probably had time for, making us feel very welcome. We also noticed he made time to address all of the guests who entered the tasting room while we were there. This kind of focus on end-use consumers by winery owners and wine makers goes a very long way toward conveying a passion for the product as well as a passion for the industry and consumers who support it. It also sends a message to winery employees about what is important. Mr. Mondavi, his family, and his teams are nothing if not entrepreneurial. As of June 2014, his Michael Mondavi Family Estate winery facility had been sold, and the family was actively looking for a new location in the region to establish their presence, all the while remaining focused on the existing customer base and wine club membership.

Michael is one of the more well connected and respected winery executives in the industry, and in fact he helped us make additional connections in Italy. However, he and his organization clearly represent first and foremost a strong customer orientation, constantly seeking input and feedback so that not only do they produce outstanding wines, they remain connected with consumers throughout the industry.

Organizational Orientations

What does it mean to have an organizational foundation? As we discovered in our research, wineries tend to stand for something and therefore have an orientation, or way of looking at the world. This orientation becomes almost unstated and assumed. Leaders have orientations, and their organizations can have orientations. These orientations influence the choices leaders make, sometimes without them even realizing it. At other times, orientations are carefully managed cultures.

A winery can have numerous orientations. For example, many if not most are essentially product oriented. A product orientation is the most traditional and often the default orientation of a company, wherein the focus is predominantly on product design and quality. One might say these organizations are "in love" with their products. In a winery's case, it can be seen when everyone from owners to wine makers to staff talk only about their wine and how beautiful it is—the focus is on quality and on the vineyard. It is true that wine is both an agricultural product and, at times, a luxury product. Therefore, it is natural to pay careful attention to the product. Wine is part science and part art; it is a food per se and also a consumer branded good. The artistic aspect of the wine emerges when managers talk about the its character, its essence, its beauty. Owners tend to discuss their passion for the wine as the primary reason they are in business. When the predominant marketing message is about product attributes, a product orientation likely lies behind that company. This is not always a bad thing despite it being the most common and, shall we say, basic orientation. An intense focus on the product means a higher likelihood of its attributes being able to differentiate it in the marketplace.

But a product orientation is not limited to only the products produced; it also includes a focus on one's own organization—messaging that is centered on the history of the winery, the terroir, or the wine-making processes all reflect a product orientation. The winery is focused on the "self," so to speak. In our view, this is a rather basic self-centered orientation. Customers do want to know details about the wine and the winery, of course. This is necessary but insufficient. It comes down to how this information is communicated. It is the organization's orientation that drives not only what is done and communicated but also how information is communicated (i.e., the tone, focus, and style of marketing communication). Don't take our opinion, though; look at the industry. The majority of wineries seem to have a product orientation. This means that most are trying to differentiate in the same way.

In an effort to differentiate, some leaders constantly seek new business opportunities. This may involve product modification, such as developing new blends, or more dramatically, removing vines and planting entirely different ones. We refer to wineries with this mind-set as entrepreneurially oriented.

An orientation refocusing an organization away from itself and its products and toward the outside market is referred to as a market orientation.[1] A market-oriented company has attitudes and behaviors that reflect attention being paid to (a) customers and what they value, (b) competitors and the strategies they employ, and (c) sharing/responding to that intelligence. These organizations are looking outward often. Product quality is clearly still important, but the product does not drive the strategy. In a market-oriented winery, leaders pay careful attention to markets, customer desires, and their competitors. Where a product-oriented culture might yield comments like "We just make the wine we like. If customers like it, they'll buy it. If not, there are plenty of other choices out there," a market-oriented culture might yield comments such as "We know who we compete with and in what markets. We try to be in the right comparative set and know what our customers prefer." There are numerous organizational orientations discussed in the scholastic literature, such as a supply chain orientation,[2] sustainability orientation,[3] and even sustainable supply chain orientation.

A supply chain orientation refers to an organization that strategizes and collaborates with supply chain partners to achieve joint objectives. These companies understand that members of the supply chain exist to help create value and that there are ways to structure and manage the flow of materials, products, information, and money to increase effectiveness and efficiency.

In some cases, a winery might begin with customer and market research and then try to produce wines that will meet that need, much like a typical consumer packaged goods company might do. This is tricky and rare in the wine industry. This would represent a high degree of customer orientation. One extremely successful winery, Zonin, is very market oriented. It was reflected in our conversations with their leadership and is reflected in their marketing. Their website even states: "We want to be close to our clients."[4] But the connection to product, history, and origin is never lost in any winery's orientation. As that Zonin phrase continues, it reads, "by promoting high quality Italian wine. We are endeavoring to spread our country's culture."

Image 3.1 Zonin: Enjoy the simple moments of life.

The website also has prominent easy-to-access links to its worldwide distribution, its social connections (social media), and its sustainability. Highlighting these three aspects speaks to the culture and orientation of this successful family company. In companies like this, there is a concerted effort to understand and connect with customers, be they business customers or consumers. Several large market-oriented wineries in California often use consumer research to plan the wines they will produce, including specific blends, in order to adapt to consumer tastes in different markets.

Where some wineries find great business success in understanding and adapting to customer markets, noting that a consumer product ought to meet customer needs, many wineries think this is a violation of what wine "should be." Both attitudes reflect ways of looking at the industry—their orientations. The problem with being too customer oriented, critics argue, is that a particular hectare of land is unique, and it can best produce specific vines and grapes. The wine that can and "should" be produced is a reflection of that terroir. There is no choice in the process. The best wine is produced from those grapes, and then markets are sought for them. What makes this challenging for a winery is when certain varietals come into vogue as others fade away, maybe temporarily, maybe permanently. It is difficult to quickly adapt to the market. When the wine being sold was bottled several years prior, there is no going back. As a director at one winery stated, "I don't care if demand goes up. There is no more. This is not a consumer brand where I can simply produce more. What's there is there." Additionally, for a sustainability-minded winery, some vines simply should not be planted in certain regions where they "do not belong." Thus, removing vines of one varietal and replacing them with a popular one is seen as environmentally unsound. Wineries with strong orientations such as this sometimes even have a disdain for marketing due to how they view the discipline. History across many industries has shown, however, that a wonderful product without sound marketing will almost always fail.

There is a middle ground as well between a customer orientation and a product orientation. This balance reflects a respect for the terroir and high-quality wine production appropriate for the region as well as an understanding of the wine's most loyal customers. Wineries spend a great deal of time communicating with these customers, and consequently, these customers tell their friends, and those friends find their way to the winery, along with distributors with similar views to each other but operating in noncompeting markets. Through close customer care, these wineries can grow their businesses while remaining true to their products.

A winery with a balanced product and market orientation doesn't need to change its wine to adapt to the market; they can instead modify their services. For example, wine has long been intimately connected with tourism. When customers visit wine regions, they certainly want to sample wines, but this is only part of an overall social experience. They need accommodations and want to eat good food, they want to marvel at the beauty of the landscape and engage other wine enthusiasts. Many wineries take advantage of this by offering accommodations ranging from small, intimate boutique bed-and-breakfast inns such as Musella Winery and Relais in Italy; casual accommodations such as Kabaj in Slovenia; unique historic lodging such as the impressive monastery of Kloster Eberbach in Germany; up to major high-end hotels and cottages such as Smith Haut Lafitte in the Bordeaux region of France, all of which we had the pleasure of visiting.

Image 3.2 Kloster Eberbach ancient cellar—a place to see.

Lodging options have many benefits, but they allow the customer-oriented nature of owners to flourish. They also allow the product orientation to flourish because the inns and services all complement the wines' character and personality. Paying careful attention to guests most often turns them into loyal customers for years as they relive their intimate experiences over and over again through the wine once they return home. They become ambassadors.

Other services that help demonstrate a customer orientation include wine tastings at a cellar door. But there are wine tastings, and then there are wine tastings! Some wineries conduct wine tastings as if you were sampling food in a grocery store, meaning they lack excitement and engagement. You sample the wine, and all the salesperson does is simply pour the wine and wait. She may or may not know much about the wine beyond what is on the tasting notes. This is partly understandable in places such as Napa, California, where thousands of customers pass through a facility every day at certain times of the year. In fact, having a stunning cellar door wine-tasting room and retail store is not in any way an advantage in Napa. Not having one means you're not even in the game. Every winery has one. But among tasting rooms, some are far more intimate, customer focused, and fun than others. Those are the ones that stand out. These cellar-door professionals know how to engage customers and how to ask questions, listen, and adapt their style and what they discuss to whoever they speak with. At minimum, they are kind, gentle, and successful salespeople. At best, they seem to become everyone's friend. Visitors feel special when they

Image 3.3 Mazzei's Osteria—taking care of guests.

are there. This partially demonstrates a customer-orientated culture. When this person is also passionate about the wines, the balanced orientation becomes apparent—the best of both worlds.

Let's look at another example. We found him on a tractor, the son of the winery founder and owner of Tresillian Estate, a small, young, family-owned winery just west of Christchurch, New Zealand. Tresillina was founded in 2000, with its first release just ten years ago in 2005. This winery does not boast the history of the ancient ones in Italy, France, or Germany, the renowned prestige of some of the French chateaux, or the size of the major international corporate wine producers. It does, however, have character and a solid organizational foundation, a way of looking at the market and their business.

The beautiful accommodations are architecturally pleasing, having been inspired by the prairie style of architect Frank Lloyd Wright. The design has enough stone in it to seem connected to the earth, just as is the family. The owners, Graeme and Heather, believe in working the land themselves with a foundation philosophy of "Do it once. Do it right." The family-home atmosphere reflects the philosophy of Tresillian, which is also evident in marketing communication that is light-hearted and informal in style, especially when referring to their dog and cat, Grouse and Gris.

As we were told, the family planted Pinot Gris, Pinot Noir, and Riesling due to a combination of market demand and varietals that seemed to do well in that region of New Zealand. In addition to their own vineyards at the time, they leased vineyards out on the nearby peninsula near Akaroa at French Farm Bay. They leased this property partly to smooth out production, given the potential for frost in the main vineyard, and partly to control the sustainability management practices of the vineyard, an important part of the winery's philosophy. This winery location within the large Canterbury region is a bit unique even within New Zealand, a wine country known more for the wines of the much more wine-intense regions of Marlborough and Nelson at the north end of the South Island. Internationally, New Zealand wines are largely synonymous with Marlborough and Sauvignon Blanc wines, despite the existence of other regions and varietals, such as the Pinot Noirs of the sunny and dry Central Otago region further south. To survive, Tresillian constantly looks for threats and opportunities. They are business people—friendly and easy going, but business people nonetheless; they have an entrepreneurial orientation.

A winery, like any organization, tends to possess an orientation or foundational culture upon which the business rests and from which marketing strategies emerge. This foundation is largely based on the philosophy held by an organization's leaders. Both small and large corporations have organizational world views that serve to define who they are. In the case of Tresillian it is a passion for New Zealand and its culture as well as for wine. They developed relationships with restaurants to sell largely on premise. They used peel off labels so that on-premise diners could take the label home and have the physical and website contact information to learn more about the wine and purchase it again. They entered their wines in competitions and leveraged some of their noteworthy rankings.

We were told that Canterbury Plains was not well known or coordinated in its marketing efforts compared to Marlborough or even Waipara, which had a high number of wineries in close proximity to one another and a better collective approach to public relations and regional marketing. According to Tresillian, Waipara and Canterbury Plains have (unfortunately) classified themselves as subregions despite both being part of the Canterbury region. So without formal marketing strategies or a collective marketing effort for the subregion, Tresillian's most powerful marketing came in the form of demonstrating what they stood for.

One last example may bring the points to conclusion. Quivira Vineyards is a sustainability-focused winery in California. The marketing director we met with had diverse experience in global operations and logistics, international conflict resolution, and most importantly, brand management and operations at numerous wineries and spirits firms, some of which were the largest or second largest in the world. She worked her way through wineries in Napa and Sonoma in various marketing and brand management roles, including vice president. While working as a consultant for marketing and business strategies, she received an offer to join Quivira. This is the first lesson of this example: a firm that is serious about creating a strong foundation, in this case a firm that understands and connects with markets both large and small, will hire the best talent it can find.

She came to Quivira after working with several luxury champagne brands, as well as with the Chalk Hill and Gary Farrell vineyards. She felt a need to connect her daily work to her values of living sustainably. This is a second lesson: winery foundations are formed by people with convictions. It is not enough to simply hire good talent; you should hire good talent who believe in what your winery stands for.

At the time, Quivira was one of maybe 75 wineries in the United States certified as organic, achieving its certification as organic and biodynamic in 2005. The winery had always been focused on good land stewardship. The entrepreneurs who purchased the winery in the mid-1990s were as interested in the biodynamic focus as the founders were, and they invested heavily in it, including revitalization of the property's creek for spawning coho salmon and steelhead trout. The story drew customers who held similar environmental values. Speaking with visiting customers constituted the essence of Quivira's market research. She was instead intent on creating a "brand essence" for the wines.

The marketing director and her winery had a rock-solid sustainability orientation. Sustainability in the complete professional sense refers to more than simply the environment. In a contemporary sense, it refers to environmental, social, and economic sustainment. We discuss this in greater detail in chapter six. However, a predilection for the environmental side of things is understandable for an agriculture-based consumer product. Economic sustainability refers to financial survival of the winery. Without this, the other two issues become moot. Social sustainability refers to the long-term health of the community, the regional culture, and even employee morale. Some wineries work toward economic sustainability at the expense of the environment. Conversely, some wineries are mostly concerned with the environment, regardless of the economic pressures to do other things. These wineries may be organic or even biodynamic. Entirely biodynamic wineries can often become highly product oriented, but they do not need to be. A holistic sustainability-oriented winery will reflect a balanced focus among all three components. Their foundation is to do well by customers, society at large, and the environment all of the time. This impacts their operations, their wine, their packaging, and their communication. Some, like one in particular we visited in New Zealand, place markings on their bottles such as neck sleeves or labels highlighting sustainability certifications or association memberships and initiatives such as CarboNZero.

Even when thinking about sustainability, many wineries think mostly of their own operations when they could be involving other businesses. These wineries would be self-oriented, which can be correlated with being product oriented. As they become more "other" oriented, they will consider the needs and objectives of growers as well as distributors, retailers, and so on. When wineries shift toward partnering, they are moving toward a supply chain orientation. For example, at the time we met with leaders there, Highfield Estates, a beautiful New Zealand winery, was working with a SC consulting firm and a large foreign retail customer of theirs to optimize packaging and distribution to reach jointly developed carbon footprint reduction targets.

We discovered that when a sustainability orientation was combined with a supply chain orientation in an executive's mind, he adopted what we termed a sustainable supply chain orientation (SSCO).[5] These wineries, rather rare it seems, understand and drive toward all three aspects of sustainability while also leveraging their global supply chain relationships (with growers, distributors, and retailers) for collaborative efforts to understand, access, and serve global markets.

Corporate Identity: The Big Four

Related to an organization's orientation is its identity. We examined all of our data, looked into many additional marketing materials, and kept finding wineries forming identities based on one or more four powerful words: innovative, modern, traditional, and classic.[6] We will refer to them here as "the Big Four" identity components that individually and in combination form foundations that impact how wineries conduct business and market themselves. We revisit these terms from time to time throughout the book as part of how a winery manages a corporate identity.

To be traditional means to adhere to the expectations for a particular wine region, winery, or wine varietal. Concerning organizational foundations, a winery seeing itself as traditional will try to remain true to the grapes naturally grown in its region as well as the processes for vineyard management and wine production typical for each particular type of wine produced. Wineries in internationally known wine regions often leverage both the region's and the varietal's reputation for the way things are typically done. Their attitude toward valuing tradition means that they understand history. They understand how and why things were done and try to remain true to those methods. The assumption is that this will yield wines that taste as expected from that region and with a particular label.

Being traditional also helps a winery save costs because supplies and systems are well established, enabling economies of scale to be leveraged. Traditional does not necessarily need to be widely known outside of the region, however. It just needs to be how things have typically been done. In fact, explaining a local region's traditions may be intriguing to customers.

A classic identity is more than simply traditional; it is iconic. Classic refers to being widely known, and it usually represents excellence. When a wine is classic, it represents a kind of standard. When an organization sees itself as classic, it sees itself as representing an iconic and world-class way of doing business and producing wines.

An innovative identity refers to a winery constantly seeking out unique and improved ways of doing things, from vineyard management and production to distribution and even marketing. These wineries experiment with energy sources, leaf trimming, soil management, picking operations, timing, water management, pest control and many other aspects of viticulture. They may also obtain state-of-the-art filtration systems, fermentation containers, and so on. Innovation is often valued in these organizations because it means possibly a slightly higher quality wine or more efficient operation.

Finally, modern organizations are ones predominantly concerned with being seen as new and cutting edge. You can sense this orientation in their architectural design, labels, equipment, and way of doing business.

Many wineries project an image that tries to combine more than one of the Big Four identities. For example, a winery will describe itself as "modern traditional." To each winery this will mean something different, so it is up to them to communicate to the market what they mean. But often this means using modern state-of-the-art equipment to follow traditional methods. Newer equipment might more precisely control timing, temperature, or vine aeration. Another example might be classic and traditional, referring to following traditional methods producing wines traditional from the region but making classic iconic ones recognized globally.

These four symbolic terms appear throughout the world over and over again. We find this exciting yet want to offer caution. As you will notice reading this book, creating a brand identity for products as well as for a winery requires careful attention to detail. Although being known for any one of the Big Four can be viewed as laudable, the more that various parts of the organization reflect conflicting and contrasting identities, the higher the risk of confusing the marketplace.

Fear, Opportunity, Passion, and Business

Finally, we discuss two pairs of concepts that seem to depict possible foundational perspectives held by winery leaders and their organizations: fear versus opportunity, and passion versus business.

Some wineries seem to be operating out of fear. For example, when an economy is under stress, as were many during the recession of 2008–2009 that had effects lasting into 2010–2011, many companies found it difficult to survive. As smaller wineries were purchased or shut down, remaining ones feared for their own survival. As economies struggled, demand for certain wines waned. We could sense this fear in conversations that revolved around doubt, skepticism, caution, and risk reduction. In Slovenia, fear seemed to loom over the entire economy. An organization resting on fear is cautious not only about changing operations but also about working with others. Fear makes choosing between options a challenge. For example, the problem is that it is often difficult to know if remaining traditional will help maintain sales or if trying something innovative might better gain customers' attention and thus improve sales. A fearful organization sees opportunities and risks everywhere simultaneously and tends to become frozen in indecision, thus bringing about the very thing it hopes to avoid.

Conversely, other wineries see opportunity everywhere, even when in situations similar to those that are operating under fear and seeing threats everywhere. Organizations prone to seeing opportunities are willing to adapt. This may mean shifting from one foreign market to another—for example, stepping away from Russia or even the US markets and focusing instead on growth opportunities in Sweden and China. Seeing opportunities may allow a winery to alter its blends, forge new distributor relationships, or change its strategy entirely. The point is that in a hypercompetitive industry like the global wine industry, many opportunities exist, but they are seen only by those organizations that have a culture of looking for them.

Some wineries exude pure passion for wine, the wine business, and their own wines specifically. Usually smaller, family-run wineries, these organizations are not so concerned about financial growth. They wish to sell all of the wine that they produce, but their primary concern is for the product. Yes, they can be product oriented, but many large wineries can be product oriented as well. A winery founded on passion is one that enjoys simply being in the game. Leaders talk about the joy they have in managing the vineyard, making the wine, and conveying their passion to customers. Often they tell wonderful stories about how they got into the business.

At the opposite end of the continuum from passion is a purely business foundation. These wineries were created not out of a love for wine per se, but out of an opportunity to make money. They could also be wineries that were acquired and are now managed by a business-minded parent company. The thinking that permeates these organizations revolves around revenue, revenue growth, volume, market trends, cost maintenance, and so on. To a purely business-minded winery, the wine is just another product to be managed. Our view is not surprising—a healthy winery probably has a balance, a bit of both.[7] Trying to sell wine without passion comes across as unauthentic. Passion without business sense rarely leads to sufficient profits to sustain the business.

One final comment is that much of what determines whether a winery operates under fear, opportunity, passion, or business is determined by the leader. Many wineries are impacted in powerful ways by their leaders. Some would wither and die without their particular leader. Thus, the world view or perspectives of those leaders is important to understand. Organizations adopt an orientation based in large part on the orientations held by their leadership. We have spent a great deal of time exploring how winery leaders perceive their environments and the orientations they hold, and we connected those perspectives to the strategies and tactics they embrace. We describe many of those strategies and tactics throughout the remainder of the book.

Summary

This chapter was about organizational foundations. We discuss these early in the book to emphasize the importance of knowing what you and your winery stand for and what you want the culture of the winery to be. All marketing strategies and tactics, as well as how you collaborate with supply chain partners—or don't collaborate—emerge out of this foundational culture.

We did not describe organizational culture in a normal way; we discussed orientations. Specifically, we discussed product, market, customer, and balanced orientations. We also discussed entrepreneurial, sustainability, supply chain, and sustainable supply chain orientation. That is an interesting list of driving organizational philosophies from which to choose. So the fundamental question for a winery is what is its current orientation. Is it the desired orientation? What are the benefits and costs to each orientation, and which one does the winery want to adopt as it moves forward?

The Big Four corporate identity terms we presented were innovation, tradition, modern, and classic. These were discovered through a semiotic linguistic analysis exercise. We discovered that they occur across the globe. Most wineries are trying to create identities that comprise one or more of these four terms. A winery needs to understand how it wants to be known, what identity it wants to have, and how to consciously align all communications to consistently support that identity. Many seem to do so in an ad hoc and unfocused, opportunistic fashion.

We also discussed fear versus opportunity, and passion versus business. Once again, maintaining a healthy balance among all seems wise, but doing so requires active management. Winery leadership ought to think through how they will do that.

The next chapter takes you into a very important part of marketing in a complex, hypercompetitive, globally extended set of business-to-business and business-to-consumer connections—relationships and relationship marketing.

CHAPTER 4

Relationships

Case Vignette: Gruppo Italiano Vini, Italy

Gruppo Italiano Vini is the largest wine grower/producer in Italy, with consolidated revenues amounting to €348 million in 2013 (a 3.2 percent increase over the previous year), and it is a global leader in the production and sales of excellent wines. Founded in 1986, the group's capital consists of 15 historic cellars that are located in their own evocative vineyards and situated in Italy's most prestigious areas, with their own brands that are distributed worldwide. This company offers a vast selection of Italian wines, and it declares itself "extremely versatile and able to respond to the demands of a constantly changing market." The particular structure of Gruppo Italiano Vini is a distinct advantage. Their story began with a group of eight cooperative wineries that purchased the totality of the Gruppo Italiano Vini shares from Credito Svizzero, and then transformed the group into a second-level cooperative company. It followed a continuous growth but kept the main focus on growers, and at the same time continued to manage an essentially vertically integrated supply chain while optimizing logistics as well as marketing. In 1987, Gruppo Italiano Vini acquired a foreign marketing company: Carniato SA of Paris. Six years later it took over the American importer Frederick Wildman & Sons Ltd. During the years that followed, the group completed further takeovers and opened foreign agencies: this took the number of group-owned companies—subsidiary and/or associated—to ten, thereby reinforcing its presence in countries where it was already established with its own structure, while creating new structures in countries that revealed high development potential. Company growth has always been the main business goal, as they stated: "Without growth we are dead!" Over time, its structure changed from a second-level cooperative (known as a scarl) to a SpA (think incorporated firm), but this did not affect the cellar's centrality and their territorial identity. By combining some of the competitive factors specific to a large structure with many of the advantages of small and medium-scale ones, today Gruppo Italiano Vini is a model of a business with unique specific features that projects itself with dynamism and an ability to innovate, which has few equals in the national and international panorama. In one of our interviews, a recent CEO confirmed that "GIV is strong because it is made by so many small wineries," adding that it is important to keep the "small" characteristic because it allows them to know the specifics of different areas while leveraging all the benefits of a large organization. In addition, "the marketing is specific for every single winery," so it is branding in a somewhat localized independent way.

As a successful company, it has many strengths in its strategies, and one of them, maybe less visible, is the relationship approach. This company invests time and resources in getting the best from a variety of multiple stakeholders: in order to enhance overall quality, a special relationship with its suppliers is developed by working closely with them and paying a premium price for quality. Therefore, sustainability has been always reported when talking about relationships: "Wine is an element that is related to the landscape and also to the people that live on that landscape . . . We adopt the triple bottom line of sustainability, which involves economic, social and environmental issues." Social sustainability is the main principle for relationships, and it is an important value in this company, as they consider and respect every person who is involved in the process, from the grape grower to the end consumer. Their growers and winemakers are not dealing with tightly squeezed margins and contract conflicts. They are part of the "family," receiving many services and collaborating to continuously improve product and production. All members of the group and actors of this network are aware of the main values and principles of this company. Although the company perceives that sustainability is a fundamental value nowadays, it is not yet mass communicated to the market. "Today GIV does not speak directly about sustainability," the CEO continued. "We want to be leaders in improving a good way in production and for the market. The last change for us will be to better communicate this policy. We used to practice this strategy without communicating it to the market."

This case study has been chosen to underline the importance of investing not only in a relationship with the direct customer (usually an intermediary in this industry) to extend the vision beyond the dyadic approach, but also with a variety of stakeholders. Gruppo Italiano Vini takes care of multiple relationships with internal stakeholders, like employees, direct suppliers, customers or other partners within their supply chain, to ensure the best value to every member of the network, internal or external. They are active participants in many other initiatives, collaborating with local universities

Image 4.1 Gruppo Italiano Vini headquarters in Villa Belvedere.

and being part of the local community. They also strive to give value to each partner and receive it back—a win-win outcome.

Relational strategies are not obtainable simply by applying a business tool or a standard formula;[1] a relational approach is more an ethical and cultural philosophy, and it is not really dependent on resources or a company dimension.[2] Relationship-marketing objectives are to "identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfillment of promises."[3] Based on this concept, let's now understand what relationship marketing means for a wine business and how to change a marketing style toward a relationship approach.

Relationship and Collaboration

When we discussed relationships with more than two hundred business professionals in the wine industry around the world, the first topic for them was to explain relations with their customers, mainly intermediaries like distributors and importers, and also the connections they had with the market. It is very common in this industry to apply a marketing push strategy, where the main effort in relationships is to push the wine product through the chain and often accept that some intermediaries have most of the power to present their wines and sell them to their customers in a wider portfolio. Many companies believe strongly in the quality of their products and trust in direct and frequent interactions to be able to be really known and "understood" in their stories and values. It seems that in order to differentiate themselves, everybody is using precisely the same positioning and marketing tactics as all the others, and at the same time, every single company we met feels unique in some way. We will discuss more about branding and how this relates; however, at this point we need to focus on a relationship-marketing plan, which should depend strictly on marketing strategies that help to create and leverage real differentiators. In our discussions about marketing with winery managers, we noted that there is always a constraint limiting them. Sometimes it was the distribution channel structure, at other times it was resources and knowledge.

In some countries, like in France, when selling through an intermediary (in Bordeaux they refer mainly to "négociant") it is ethical to respect the local and historical distribution system: it means that wine producers accept having a "wall" beyond the direct partner and do not know in detail where and how their wine is sold. It was a frequent comment in France that went something like: "Here we can't control the distribution . . . We would like to know where our wines are sold," or "We are trying to be ethical respecting our traditional distribution system and not trying to go in the open market independently." We at length discussed strengths and weaknesses of this approach, particularly in Bordeaux with the general directors of Sichel and Cantemerle. The positive side of this system is that even if the producer does not have control over the supply chain, their intermediary has wider selling knowledge and skills. What does this system imply for a relationship-marketing plan? All the principal efforts are concentrated in dealing with a smaller number of "partners," with many emails, telephone calls, business events, and physical meetings, enriched with a range of trade marketing operational efforts that are designed to persuade the distribution side. The direct contact with customers' customers is to promote the wine, adopting collaborative wine tastings with the intermediary, visits and hosting of recommended customers. We must note, however, that these expenses did not seem to be often planned into a budget, and relative goals are often not defined, so the return on investment is not easy to determine. Sales is the only indicator to track these kinds of relationship-management expenses, even if the significant majority of our research participants did not mention any specific metric or figures when we asked for practical examples of successful relationships. What emerged from our work, in general in this industry, is that there is consensus on the importance of the dyadic relation with direct partners, but it also seems that customer-relationship management[4] or key account-management basic rules are not often applied.

We will discuss more about this distribution structure in the supply chain chapter, but here we need to understand why and how wine companies should apply some relationship-marketing tactics to gain more value from their direct relations.

Let's refresh what is the typical idea of collaboration in this industry, as seen with our participants. One director at a well-known brand from Tuscany, Ricasoli, explained it by referring to public relations: "I must say that what we do is much more at the level of public relations, trying to bring them [customers] over here, trying to involve them in everything we do here. So in time, obviously we have key customers that we love to involve in all the activities because we can have from their side the kind of outcome helping us to better develop a specific project. So once we have a new project, a new wine to launch, we include them in kind of panels in order to have a feedback on the quality, on the image, what they would do to better launch the product, and so on at this kind of level." Public relations and direct promotion are two typical key elements of operational marketing in this industry worldwide. These efforts are often directed to a client, who becomes a business partner providing information about the market and brand positioning. In many cases like this, we saw a high frequency of meetings, but also much about listening and deep two-way exchange; it seems that these cases represent more of a production orientation. Being market oriented and interconnected in the distribution channel are very important in this business. For example, Maison Sichel, a well-known French company with significant expertise as a wine merchant and now also wine producer, defined one of its goals: "To reach a physical presence in its markets so as to be close to its customers, know consumers and be able to offer them high-quality products tailored to their taste." This orientation is collaborative with partners, and of course should satisfy every member of the chain, but it is mainly to meet final customer/consumer desires. A relationship-marketing approach, to be successful, should define subgoals for each member of the network, end-use consumers included.

From a theoretical point of view, there are many other areas within which two business partners can collaborate under the total quality management umbrella.[5] Two business partners could collaborate to create new products, invest in a new technology, study new solutions to reduce costs, share educational programs for their employees or common customers, cooperate in logistics and distribution operations, create and share an information platform, invest in comarketing or other joint projects, cosupervise process controls and long-term planning, or share decisions about final pricing, packaging, and branding. Many opportunities, many conscious decisions.

We discovered in this industry a large number of collaborative projects; they involved members of the supply chain (with suppliers or customers), other local producers as a horizontal kind of collaboration (within or without formal associations, consortia, or clusters), or other types of stakeholders (universities, research centers), but not so many with a diverse group of employees, business units, or internal suppliers. Some of those projects were on new technology or solutions (in particular, for the production process), others were on fair trade or marketing events. The wine industry appears to be surprisingly active in innovation, but more so in some countries than others. That said, a collaborative approach to innovation projects is not always dominant: half of the managers in our participant group set their priorities on their own individual investments and project priorities.[6] The CEO of Mazzei, a highly innovative Italian company in Tuscany, discussed collaboration with a critical perspective: "In terms of entering markets together with other companies, results are not so successful like years ago, we were one of the first who started to penetrate new markets in different countries together with other companies. Right now this phenomenon is decreased. You know that the wine industry is very, very individual and when the market, in the early 2000s and 90s, was booming we were present, together with other companies, in England, America, Germany. Then, when the market became more and more difficult, we divided again because strategies were different. Our idea was to be very open to collaboration, we still do something. For example we market together with other four or five companies in Tuscany in terms of sales, we do something but less than was done in the past. It was, I think, mainly because of the prices. I think that when things start to recover a little bit, we will start to do something together."

Intense competition can make winery leaders fearful, suspicious, and protective. It could be, though, that closer partnering, as long as all parties commit at the same level, could be the very thing that propels them to new heights in the industry and out of the competitive intensity. The most widespread idea of relationships with customers in this industry seems to be to offer a wide range of services to partners, from traditional operational services to educational (e.g., wine workshops, courses) to leisure events (e.g., parties, hosting dinners, lodging, and hospitality).

At the same time, many wineries are also trying to get in direct contact with final consumers, hosting them and organizing guided tours and wine-tasting events. In many meetings we've been able to experience and see these tourist aspects; in some cases the events were simply considered part of the promotional budget, in others they were managed by a separate subcompany or as an independent asset, partially missing interaction opportunities. The kind of initiatives recently being adopted vary from physical to virtual ones and, of course, are adapted to different types of customers: experts, opinion leaders, loyalists, wine lovers, members of the local community, or tourists. Initiatives include company-guided visits; wine tours in the local area; wine tastings; mass events such as wine festivals organized by one company or by many collectively in a town; lodging; cooking courses; and, lastly, food-pairing events.

A typical example of a marketing effort related to tourism comes from Siduri, a family-owned "warehouse winery" in California that, through successful promotions to final customers, reported visits during weekends and on-site events as follows: "On the weekends we get 50–100 people coming through every weekend and weekdays on a daily basis probably 10 or 12 or 15 folks coming in. Yesterday we sold $32,000 worth of wine and had 600 people come through. So it was well over $50.00 on average. People who come here, they're not coming for gardens or marble or any of those things, they're coming because they like the wine and are willing to, I don't know if they ignore the surroundings, maybe they enjoy the surroundings. I mean I have had people tell me that they like the fact that when they come here and they spend $30.00 on a bottle of wine they think they're getting $30.00 worth of wine rather than $15.00 worth of ambience and $15.00 worth of wine."

The range of event types related to wine is really quite wide: they could be organized by wine associations, local administrations, fairs, other companies working together for the event, or by one company alone. Events may target professionals or final consumers. Every time managers presented their events, they always found them successful in some ways, depending on the nature of their own objectives. We could write dozens of pages of examples from our sample, showing a variety of motivations. Wine "events" and social gatherings have existed as long as wine has; using them in sophisticated ways to manage relationships has not.

In particular, talking about wine festivals, a family-owned New Zealand boutique wine producer, Tresillian Estates, declared that "we attend local wine festivals primarily because we've got the vineyards peninsula and we'd like to support the locals . . . and so they've put on a pretty funky street party and we sell a lot of wine and try and build the brand more than anything."

A different example concerning mass events comes from a large German cooperative of winemakers, located in a small town in the Palatine region: they organize annually, for German tourists and wine enthusiasts, a three-day wine festival with music, food, and wine, attracting eighty thousand to one hundred thousand people. These events are organized internally, with great effort from the entire staff: the main goals are to attract a large number of potential customers, let them taste (drink in large quantities) and experience the product and the company, sell wine bottles on site, and then keep their loyalty for regular purchases.

As an example of another kind of initiative targeted to final customers, a French wine company owned by a large Chinese corporation, with a staff dedicated to the tourism branch, organizes wine events, concerts, dinners, customer clubs to take care of customer needs (i.e. shuttle service to the airport/train station, water taxis on the river, interpreters, golf outings, trekking, horseback rides, architecture tours, picnics, and art exhibitions), and also a wine school: "Throughout the year we offer various activities around the wine based on the work we do in the vineyard. These workshops, both technically educational and fun, are both for expert wine lovers and neophytes."

We need to clarify, to be precise, that what we discovered, although we saw many initiatives, they were often a collection of experiences that were not always components of formal marketing projects; some of these activities were tracked and measured, while others were not analyzed, evaluated, or included in any report. As managers and decision makers, relationship programs should also be held to business-practice evaluation standards, and we should ask ourselves these questions:

- Has my company clearly defined specific actions for different customers?
- Did we set specific metrics to measure the success of our initiatives and define relative goals?
- Are we able to measure how much of our relationship budget is helping our brand awareness, our reputation, or our image, and not only a total amount of sales?
- Are we able to measure our abilities on customer attraction, customer satisfaction, customer retention, and customer cross-selling?
- And above all, is it clear from a relationship perspective why we are doing what we are doing?

In this research, trying to understand why managers do what they do, our perception is that very few companies are running these experiential events and making decisions with a managerial approach. It also seems that the relationship-marketing knowledge is not perceived as so important to running this business, with events being applied just for advertising or promotional purposes in a unidirectional way.

Relations, Network, Interaction

Relations, networks, and interactions are the three main pillars of a relationship-marketing strategy.[7]

Relational Style and Approach

When marketing goals are defined, the first phase when adopting a relational strategy should be to decide on the relational style.

Relations are always between humans. Behind a company name there is always a person, with his relational capabilities and needs. Two or more persons could interact individually or in groups, in person or through a technology, and the interaction may be unidirectional, bidirectional, or in a network.

Relationship style, relationship approach, network structure, and the nature of interaction models are important decisions to make when investing in one or more relationships.

The relational style needs to be coherent and consistent with the corporate identity and brand positioning: if the main image of a firm is to be family owned, it follows a family style with a typical tone of voice and all related initiatives will have the same approach. For example, a German family owns a winery and mainly sells wine direct on site, but they also have bed-and-breakfast lodging and a restaurant, and they organize barbecue dinners in the courtyard for the guests, where they tell fun stories and get to know each other; that is, they treat the guests like family friends. The charisma of the family is a personal touch that can be found in every single marketing decision from the architecture of the building to their excitement about their wines and labels. So, a relational style could be professional, traditional, classic, modern, technological, elegant, sophisticated, family friendly, and so on,

Image 4.2 Domanies Fabre harvesting—note the family atmosphere.

respecting one's brand identity and corporate identity. A small family-owned winery in France, Domaines Fabre, is proud to be a family business, and they explained that they easily collaborate with other companies in the area that have similar family size and values. The internal ambience has a family feel. Family atmosphere is everywhere since they host their customers' guests in their house as "part of the family."

A relational approach transfers this style in an ad hoc fashion through tone of voice that can be aggressive, shy, informative, "au pair," or invasive. Style and approach are important elements in strengthening a competitive differentiation. Not enough wineries are overtly aware of their individual and collective (i.e., all staff and employees who interact with customers) "voice."

In defining which relationships are important to reach a particular marketing goal, it is always effective to consider the relationship-marketing strategy as a source of value, detailing a list of benefits for the company associated with each type and segment of stakeholder.[8] An easy exercise with which to begin is to analyze past relational experiences and try to understand the primary benefits produced for both sides.

Defining and Designing the Network

A next step can be to identify, for every stakeholder considered in the relationship plan, a specific relational profile defining the importance of the relationship in terms of profitability (an ABC analysis is a good method to realize this task). The life cycle of each subject should not be overlooked. A relationship approach needs to respect the cycle phases so that

- with prospect stakeholders, a "seductive" relational approach may be the best tinder for stakeholder attraction. In this phase, usually traditional unidirectional communication tactics are used, not mainly so relationship oriented;
- during the first contact point, not necessarily for a purchase or a real project, a first impression is formed. It is a reciprocal test for collaboration. Others may follow, or maybe not, it depends on the quality of the first contact;
- at the first complete experience (e.g., purchase with immediate consumption or not; support with immediate benefit or not, or a project executed), specific needs should be satisfied and promises should be accomplished/met for stakeholder satisfaction;
- then, to retain stakeholders, other techniques can be applied to gain brand or corporate long-term loyalty.

We offer additional details related to formal selling in chapter twelve that continue this line of careful purposeful interactional thinking. Along the entire life cycle are hidden numerous risks of failure—for example, negative word-of-mouth from unsatisfied stakeholders (employees included!) resulting in a bad reputation for the company; a stakeholder could not react actively but was stopped at all his points of contact with the company and as a result reduced any kind of support; or the worst scenario, which is the end of the relationship and a definitive loss of that subject (and probably secondary effects due to his negative word-of-mouth). Some weak signals of these main risks are always present. A successful manager is able to recognize them early even if very subtle and take preventive actions to reduce those risks.

Once relationship style and approach are defined and stakeholder relational profiles have been developed, the relationship plan needs to suggest a way to optimize the relational network structure. Every organization has a network structure, but very few managers think that mapping it is important. A map is able to identify

- how the network is structured (open, closed, linear, complex),
- which subjects (or segments) are critical or are key nodes in the network, playing roles of "rebounders" or "stoppers," central players or peripheral members.

Each type is easy to recognize; let's take an example of an employee-rebounder. Marianna is a beautiful Italian PR manager for Inama, an innovative and original company in Italy: her beauty, style, and charm are blended with the brand she promotes. Her image, in her personal social network, is spreading her enthusiasm for the brand and the company. A rebounder is a subject that rebounds messages and images of a brand, enriching them with his or her own passions. The measurement of this kind of relationship should include indirect effects as well. On the opposite side, a stopper receives only, and every measure is related only to him.

Subject profiles and relational information are precious to understand which subjects are "diamonds" to invest in, or "timewasters" to harvest and phase out.

A relational network map could be simplified to consider only direct customers or only suppliers. In any case, the complete network map should be analyzed, including all kinds of stakeholders: internal and external customers, internal and external suppliers, consumers and shoppers, owners (shareholders), employees and board of directors, associations, community, government (and its agencies), nonprofit organizations, opinion leaders, journalists, and key influencers. In each category, actual, past, or prospective subjects should be highlighted. Not all stakeholders are equal, as we already discussed. A winery leader, mapping his network, realized that his budget was concentrated only on a few categories and started to optimize resources measuring and better orienting them on other targets. A company can belong to his network and, at the same time, take part in other networks with which there is an interaction and opportunity.

Networks can be designed, managed, or left to "naturally" occur—that is, remain organic. If the structure is too complex, the final reputation of the company may depend more on external interactions than its own relational actions. In these cases, it is critical to understand the key subjects in which to invest, or how to design an ideal structure to support that complexity.

Winery Clusters and Consortia

A formal relational network is the cluster. In the wine industry, in a context of highly competitive international markets, there are unions, local associations, consortia, and clusters, both public and private, which offer services and have demonstrated to be quite beneficial to the wine business.

Winemakers can enhance their effectiveness through clustering in these ways. For example, a Slovenian organic winemaker decided to establish a cluster with three other winemakers, and he did so in part because "a cooperative of four people [is] perceived differently than if you are on your own." One of his "colleague/competitors," confirmed: "We would actually be achieving a synergy by collaborating. Because if the whole region was more known, more people would come here and retail sales would improve." Clarifying motivations to cluster is a critical aspect of a successful collaboration. As we noticed in particular in Slovenian clusters, these motivations included cost reduction, increased marketing effectiveness, and gaining energy/knowledge through shared values.[9] Whichever was the main goal of the association/cluster, each member needed to remain true to his core business, keeping his own authenticity, in parallel with all joint initiatives and projects. Slovenian winemakers shared stories revealing that relationships often came under stress when one party was following different approaches from the others. Therefore, defining member rules and tasks was a critical issue. Moreover, the collective characteristics of cluster members influenced behaviors, structures, success, and growth of the cluster. Cluster membership was found to be dynamic, with enterprises joining and leaving specific clusters as well as becoming members of multiple clusters depending on their goals. Wineries' selection of clusters to join seemed to be determined by one or more of four factors: approach to wine production (i.e., organic, natural, biodynamic), geographic location of the winery (i.e., Slovenia, Austria, Italy, France), enterprise size (small, medium, and large scale), and size of the cluster itself (few members to 50 or 60).[10]

In every wine country of our sample, we found numerous initiatives of collective projects, ranging from wine-company networks to research centers, local to national associations, clusters to consortia. Sometimes we noticed a proliferation of new initiatives, while other nearby wineries were not always aware of them, or if they were, they considered them unimportant for their business.

On the other side, some large consortia in many countries are playing a fundamental role in promoting regional or national wines, protecting denominations, developing technology, helping companies to collaborate in entering foreign markets, and more.

Many research projects had been implemented in collaboration with consortia or universities, either working alone (i.e., one winery and a university partner) or in partnership between wine firms of the same region. For example, in Tuscany, 13 normally competing companies worked on a common viticulture project for five years, expending €4.5 million under the umbrella of Consortium Tuscany. A company within this group, Mazzei, described this experience as follows: "I think that alone it's a long way . . . it's very difficult if you have to share something, especially a project where there is a common interest . . . We are a group of young professionals, let's say friends, that are working in major companies in competition, but we can manage it."

In France, another kind of player is helping companies to experiment and adopt new technologies: Inno'vin is a winegrowing industry cluster in Aquitaine that promotes joint actions on research and development issues in order to enhance their competitiveness. Members of this cluster are supported by this center and are enabled to collaborate with other partners.

Alliance des Crus Bourgeois du Médoc, in Bordeaux, is yet another fundamental actor for the local wine industry, promoting the high standards of quality for Bordeaux wines with many activities. They not only organize national and international fairs and wine tastings for professionals but critically evaluate every wine to which they assign (or not) the "cru Bourgeois" classification. Members receive a large number of services and meet very often for educational programs; they have many opportunities to share ideas and cooperate in different projects. In Italy, there are many different clusters, regional and national wine associations to protect and promote their own typical appellations. Consorzio Brunello di Montalcino, for example, counts about 280 producers, and it is nearly 50 years old; the director likes to present Montalcino as a "a little island in the Tuscan sea." Brunello di Montalcino wine has its own unique characteristics, and like many other well-known wines in international markets, its denomination needs to be constantly promoted and protected against counterfeiting. The consortium started to protect the Brunello name like a brand, registering it as a trademark in more than 60 countries. As the director said: "We have several problems all around the world, because people would like to copy our names or maybe use the name for fraud." This consortium is recognized by the Italian Ministry of Agriculture and can protect denominations and make decisions about production limits and industry norms. About pricing, for example, an external entity can't oblige a producer to respect certain limits, but "it is an important problem and it's a false problem. We can't manage prices, we can't say to the producers to respect our suggestions . . . We believe that if you are able to manage the quantities you will reach results with prices." As a result, long discussions between members are natural while making these kinds of decisions, due to the natural conflict between short- and long-term visions, or individual and collective ones.

Another example of the fundamental role that big actors are playing in the wine industry comes from Australia: "Importantly, the AWRI [Australian Wine Research Institute] has actively facilitated adoption and application of science by the Australian wine industry, fostering a culture of life-long learning that, in turn, has been instrumental in building the capacity to experiment and innovate. This capacity is directly linked to the industry's market success. Building the capacity to rapidly take up and benefit from new science and technology has helped to create a dynamic industry that is flexible and able to modify its products according to changing market."

All these are only a few examples that demonstrate the role that those "mega" entities are playing for an entire area. We mainly discussed with them their own points of view, but are wine businesses opening their doors meaningfully to collaborative projects promoted in their area? We would conclude yes and no; they do not do so always. The question is not easy when talking with wine producers: very often we found them positioning themselves in a critical and careful way toward these kinds of megastakeholders, labeling them as politically oriented, or evaluating their efforts positively in general terms but with low relevance for their own business. A successful relationship-marketing plan should be able to include those important associations and optimize some form of collaboration with them, and through them, with other companies.

Let's focus some positive words now on the collaboration with scientific research bodies and universities. Being professors, we well know that we can be perceived as time wasters by some companies; in particular, when a research project, like ours, does not include experimentation or short-term impact for the company. Our invitation to collaborate has been rejected by a large number of practitioners; some never responded to our first contact, others declined honestly saying that they were not interested in collaborating with universities. We obviously believe that we could offer some value to those that helped us in our research. On the other side, we are very thankful to all the others who believed in this kind of collaboration and who often stayed with us longer than expected, offered outstanding wine tastings and tours, hosted lunch, and donated gifts. They confirmed their relationship style through their time with us. And, just one example of all those who opened their doors to us is Giancarlo Pacenti of Siro Pacenti, a family boutique winery in Siena: he dedicated to us a day for the interview, the company visit, a conversational lunch, and then drove us everywhere in the town of Siena, introduced us to other entrepreneurs to collect more data, and at the end, he gave us one bottle of his most prestigious wine.

Territorial Marketing

Territorial marketing is a way of adopting marketing strategies and operations for the general interests of a delimited geographical area. Theoretically, it sees all of the important actors within a region collaborating actively to offer the best service, optimize infrastructures, invest in local suppliers, specialize in local labor market skills, and promote products and services of the entire area. Territorial marketing includes promotion but also synchronization between producers of different industries, service providers, and local governmental agencies. A territorial network may be beneficial for a large number of subjects, with direct and indirect results, territorial reputation included. Trade fairs play a fundamental role in connecting wine-business professionals, and some fairs attract a large number of practitioners (e.g., Vinitaly in Verona, or ProWein in Dusseldorf).

Image 4.3 A snapshot of a wine trade fair. (ProWein 2015)

Wine is a natural product, and it is always connected to its land, people, and territory. Unfortunately, territorial marketing is not considered everywhere to be a critical issue. In one Old World wine country, for example, one consortium described its role in this way: "We promote our wines but of course at the same time we promote the wine and territory, the area. Actually, to be honest, we are the only organization here to promote the area, because the public administration can't do that because they don't have the budget. Other organizations, like for example restaurants or hotels, they don't work with that. So we in these last 15 years we started to make events to communicate our typical wine."

The wine industry has to deal with many issues, and if the local government is not promoting its land, its products, or its culture, then other associations are stepping in to perform this role. Anyway, there are very few local networks we can recognize as successful in their territorial marketing projects, and by this we mean with open innovation models and an open-minded collaboration approach. Complicating this scenario further is the critical branding issue. We discuss a great deal more about branding strategies and tactics in chapters seven, ten, and eleven (at least), but here we must underline that a wine brand is not only a product name, because it may include many brand layers: a country, a territory, an appellation/denomination, a classification, a corporate name, or a product name. All these layers have to be managed in a proper way and could include different kinds of collaborative projects with other stakeholders. As one more example, some wineries and regional associations have developed partnerships with major airlines as well as travel agencies in foreign countries to better connect with tourism.

A Final Word on Interactions

We described here many examples of how and why companies are investing their time and resources in taking care of their primary relationships, and we mainly focused on physical contacts. We must highlight that organizations now are more and more considering the Internet as a tool to maintain relations with their stakeholders, even if some of them remain skeptical. Although we discuss communication and social media in chapter eleven, for now, we suggest that the Internet, with all of its potential, is only an instrument for implementing a relationship-marketing plan. There is a large debate around human versus virtual relations[11]: there is always a matter of culture and habits,[12] but a wise choice is to adopt the right mix for every profile of stakeholder. In advanced countries, a wave of technology enthusiasts drove many followers to adopt the web in every kind of action: for promotion, sales, customer service, and fun interactions. In more traditional contexts, the human side is still very important, requiring physical meetings and personal/individual contacts. As a new trend in these last five years, a balanced mix seems to be the smarter solution to this dilemma. In any case, the managerial rule is to be followed: without a plan, every initiative or effort cannot be oriented to the goal, measured, and monitored.

Risk Attitudes and Their Effects on Marketing

Managers at wineries and entrepreneurs running wineries all around the world are concerned about long-term business survival. Every entrepreneur or manager has his own risk attitude that drives his business decisions. Some may see only negative aspects in a new collaborative project, others only positive ones. Our data show that the turbulent nature of the environment within which they operate necessitates an ability to be resilient in order to survive. Resilience is an ability enabling a business to recover from a disruption and adapt and grow in the face of change. The only real certainty in the current business environment seems to be that it will change. Thus *resilience* will be a capability businesses need to develop. Managers in the wine industry clearly recognize that they have choices in how to respond and make their wineries more resilient. Several approaches to developing resilience that emerged from this research are to innovate in products, processes, and organizational design; to experiment formally or through trial and error; and to manage supply chain connections.[13] All of these elements are global and could be seen in all regions. That said, risk attitudes and relational orientations are very different in Italy, New Zealand, or the United States. We are not saying that one way is better than another one; every relational style and approach is related to the winery owner's personality, capabilities, and culture.

Summary

By now you should realize that not only are relationships important in the wine industry, something everyone recognizes, but *how* and *with whom* these relationships are managed are critical. Decisions about how and with whom ought to be made carefully. This may seem a bit formal and business-minded when in fact it is also simply polite and professional. Connecting with businesses and even consumers requires each party to invest time and energy, things in scarce supply. These interactions ought to benefit everyone involved. It's not that every event is solely a means to a business end, but to not recognize how critical these decisions are in order to maintain relational continuity often means the erosion of relationships and lost opportunity for everyone involved.

One of the exciting opportunities in the wine industry is to become involved in innovations and experimentations. We take you to this topic next.

CHAPTER 5

Innovation and Experimentation

Case Vignette: Weingut Dr. von Bassermann-Jordan, Germany

A passage from Dr. von Bassermann-Jordan's website is consistent with what we learned when speaking with the director of this German winery with a rich three-hundred-year history: "With a passion for research and entrepreneurial energy, with a quest for innovation and concern for the preservation of our cultural heritage, we have, for centuries, worked on cultivating methods that increase the quality of our wines."

Even from the beginning, the winery was innovating and experimenting. Describing their family dynasty as "wine-growing pioneers," they write: "As respected politicians they have contact with the most influential personalities of their times and contribute greatly to the improvement of the legal and regulatory framework concerning viticulture. As patrons of the arts, they donate valuable objects to a variety of museums and render outstanding services to preserve the cultural heritage of the Palatinate region. As scientists, they work on improving wine-growing methods and write the definitive book on the history of viticulture." One of their innovations was in how it approached marketing and sales. The original owners identified key and underserved market segments and quickly found a way to serve the aristocracy and the political elite. That initial highly focused and rather innovative target-marketing strategy still exists in part today where Dr. von Bassermann-Jordan remains well connected politically. But product innovation helped Dr. von Bassermann-Jordan achieve a very high standard of quality as well. "At the height of German wine around 1900, those wines reached incredible prices."

The winery has gone through numerous ownership phases and ups and downs in financial strength over the centuries, as most of the Old World wineries have, but since the latest relaunch of the winery in a powerful way in the early 2000s, significant effort has been placed on improving their organic processes and wine quality. There is a "passion for research and entrepreneurial energy" that exists, we were told. They are investing money in processes and products that help biodiversity and methods geared toward climate protection.

Alongside all of the innovation and business spirit is a healthy respect for and deep understanding of the rich history of the winery.

The director was proud to walk us through the long line of historic labels framed along his wall that are as much art as they are marketing examples. Their 1811 label is one of the oldest in Germany. This historic respect did not constrain their pursuit of innovative ways to constantly achieve absolute excellence in their wines, wines still held in high regard by political leaders.

Maintaining a global presence for a small to medium-sized winery requires some clever approaches to business, some of them rather innovative. Along those lines, Dr. von Basserman-Jordan wines targets markets and key customers carefully and finds innovative ways to be present in their lives and operations while controlling the amount of travel they must do. For example, the director developed a virtual wine-tasting presentation whereby he conducts wine tastings for retailers and their consumers via Skype. He is "there" live

Image 5.1 Bassermann new Probus label (from 1905) for the dry Riesling wines.

and in person, connecting with the shoppers and managers in his charismatic way but is not physically present. In this way, he can conduct far more customized wine tastings than he ever could in person.

Innovation and Experimentation

The opening vignette demonstrates an important point: what constitutes an innovation is largely in the eyes of the adopter or beholder. A technology, a product, a service, or a style can be new for one company but not for an entire market or society, new for a particular industry but not new in general, new for the market but not for the company. The innovator label for a specific company may be recognized by the market because customers feel it offers something new (based on personal perceptions and knowledge), it may be recognized by competitors when there is an objective uniqueness above the others, or it may be proclaimed by the company itself in its communication.

How do wine managers and entrepreneurs talk about themselves as innovators? How do they see innovation frontiers within their industry? We present numerous examples of what they said in our interviews that answer these and other questions about innovation in the wine industry. Moreover, we explore which innovative focus tends to be adopted by companies in the wine industry. Where are they investing their resources?

Innovations can occur in products, technologies, processes, or even an idea that is perceived as new by an individual or group of individuals (organization, society).[1] We found four main areas of focus in which companies are investing to innovate: products, production, organizations, and marketing. We present examples in each category.

A previous global research study on wine business classified innovative practices in five categories:[2] in the vineyard, in the cellar, packaging, operations, and marketing. Innovation in the vineyard is related to sustainable agriculture, organic and biodynamic grapes, mechanical harvesting, and new varietals. Sensory analysis, bottling and filling machines, fermentation software, and microchips are part of innovation in the cellar. Package innovation can refer to those practices linked with radio frequency indicators (RFID), sensory analysis, screw cap bottle closures, natural corks, natural cork with silicone, silicone cork, glass top, aluminum and plastic bottles, Tetra Pak, Tetra Brik, bag in box, cans, and half-bottles. Innovation was also found in operations, which is related to logistics and inventory software, waste recycling, and energy conservation. Innovative practices in marketing included tasting rooms and/or hospitality facilities, websites, newsletters, wine clubs, wine events, wine education, and telemarketing.

In our research, we can confirm many of these topics, while we also found others, many related to specific country location, firm size, and entrepreneur/manager personality.

We point out that experimentation related to innovation is common, and it does not have significant geographic borders or cultural and resources constraints. Even wineries with limited resources can experiment. We observed two approaches to experimentation that we will discuss: one is the scientific approach, with ongoing formal analysis and projects (short and medium term); another is the trial-and-error approach, more flexible, intuitive, and showing higher risk attitudes. Some projects may be temporary, vary in their type of project network, and are not by definition short-term or focused on nonroutine tasks.[3] Experimentation can take place in almost any form on any project.

Thinking and Acting Innovatively

An innovative context helps innovative initiatives: where the culture of research and innovation is extensive, infrastructures are supportive and services enable innovation. At a broader-than-organizational level, scientific and technological knowledge production and diffusion varies from country to country, and in some cases the fundamental importance of local institutions devoted to widespread support of innovative culture is recognized. For example, scientific studies[4] have documented the role that an innovation system has played in the Australian wine industry and its development. They documented that the level of university involvement in regional development differs greatly. In Argentina, the key role played by a public-support organization was to help wineries connect to different kinds of knowledge in an effort to upgrade Argentinean products. They found a different situation in Chile and South Africa, where individual researchers (especially those connected to the international scientific community), were responsible for drawing knowledge into local companies. In our research we also observed the country-specific importance of local institutions and research centers, and found a collaborative root to innovation. We discovered a large number of collaborative projects and initiatives, some of which we mentioned in chapter four on relationships.

We met with Inno'vin, an organization founded in 2010 and located in Bordeaux. Inno'vin is a cluster of organizations working together to identify, prioritize, fund, and manage innovation projects within the region. Members are industry suppliers, producers, wine merchants, and institutions. This network is focused on innovation, research, and development. Projects range from less than €5,000 to over several million euros. Examples of projects include electronic chips to track humidity and temperature of cases as they are transported, security projects to combat counterfeiting in Asia, development of consumer apps, development of economic wine supply chains, techniques for analyzing tannins and resins, or the study of oxygen transfer during barrel aging. By identifying and helping to fund projects, they are enhancing and advancing an innovation culture in the region.

However, not every organization is open to collaboration or sharing their knowledge when discovering something new. Open innovation models in this industry are not common. Innovation results are considered part of a competitive advantage to be protected and defended. The risks associated with the sharing of innovations are real, but we argue that they are manageable for several reasons: innovation transfers take time, the innovation buyer may not fully understand the value of an innovation transfer, and managers tend to underestimate the strength of suitable substitutes.[5]

In some cases we also found conservatism and individualism, with owners or managers reluctant to develop and produce any new product or process not invented by their company—the "Not Invented Here Syndrome." In our conversations with owners, some of them criticized innovations from other wine businesses in their region and never referred to them as real competitors, because they felt distant from their styles and that they belonged to completely different markets. This shortsightedness is a form of marketing myopia.

As an example of innovation risks, we spent about one hour hearing about a launch of a new product (a wine mix drink) that just happened a month before our visit at the headquarters of an Italian wine cooperative. The director described passionately why and how his product was unique and positioned in a new target at the right price and with a trendy marketing plan. Unfortunately, one competitor had a similar idea in the same period, and it ended that two similar products were launched in the market within a month: they immediately became substitutes of each other. The competitor's brand was more well known and had more appeal to retailers, so the initial cooperative's product launch was not as successful as expected. The market did not perceive any difference between those new products, both positioned on the same consumption moment and use. For the cooperative, it was a big product innovation, and it was also for the market, but not all of the risks were considered. This company believed in their project without taking into consideration the risk of failure due to competitor moves, something we teach our students under the topic of game theory. Should this dissuade a wine producer from trying to innovate? Absolutely not.

Competition is very reactive, and we can frequently see imitators or innovative followers repeating and improving on something that had success in the market. The question is not always *if* competitors will imitate a successful innovation, but *when* they will do so. Will the delay be long enough to enable the innovator to recoup investments and make sufficient profits? And once imitators emerge, the first innovator usually tends to stress in communication that "Our product is the original. We are being imitated. We were the first," and so on, to convince customers to prefer the first.

Often companies prefer to position themselves as pioneers, adopting a first-mover image not only as modern innovators, but also as historical ones. Sometimes, pioneers loyal to their first-mover advantage[6] and loving their original idea do not evolve and may be eclipsed by late movers. We collected many exclamations about being the most historical winery of a country (we found many cases within the same country!), or being a pioneer for a wine style or a blend. Unfortunately, these facts are not always confirmed by external sources. Everybody is proclaiming themselves as an innovator, a first mover in some ways, *the* producer of quality, *the* best at something, and this common behavior reduces the credibility of their entire message.

Similarly, "quality" is the main word we found attached to "innovation." The most common goal for innovation seemed to be to enhance product quality. This phenomenon is present in every wine country we studied. Even though Italy has a leading position in the wine industry, increasing global competition has spurred the Italian wineries to intensify their efforts to improve product quality and enter higher value niches in international markets. The same strategy is adopted in other countries like Germany, France, and even Slovenia.

In addition, country location has an impact not only on access to information but also the strength of an innovative spirit. Where the company is located and its national culture influence styles of leadership that promote or inhibit innovation. Similarly, strategic orientations and perceptions of the environment are also linked to the national culture, and both contribute to promote or constrain innovation.[7] So let's look a bit closer at innovation and experimentation.

Innovations

What Is Meant by Innovation?

Innovations can be incremental as well as radical. Innovation has been referred to as involving products, services, processes, or any social system, and it is an idea, practice, or object that is perceived as new by an individual or any other unit of adoption.[8] This broader conceptualization of innovation is adopted here because it is consistent with the way participants in this study discussed innovation.

Entrepreneurship is related to innovation. Many managers described their efforts to grow their business in entrepreneurial ways, in part through innovations. Some managers spent a fair amount of time "on the road" selling their brands, winery, and regions to regional distributors and customers—in effect, being entrepreneurial in adding services or developing products to take advantage of opportunities in the market. Effort put into understanding markets—what drives them and how to compete—reflects this entrepreneurial spirit and provides information necessary to stimulate innovative thinking. Being an innovator may be subjective or objective, a self-declaration or an external recognition. There are many sources available for managing innovation, and numerous other sources for technical details around specific industry-wide innovations. We observed significant variation in innovation projects and approaches and many rather personalized versions of standard practice. Therefore, we present what the companies we visited and studied were doing and how they thought of innovation, especially as it related to marketing, rather than the technical details of innovative projects themselves.

How Do Wine Businesses Market Themselves as Innovators?

We found two visions for innovation: one is futuristic, placing an emphasis on newness; another is a "going back to the past" perspective that focuses on uses of technology to bring back old values and ways of producing wine. Within these two visions, professionals presented themselves as innovators with a range of shades—that is, in a large variety of ways.

Why do wine businesses want to be innovative? How do they market their innovation side? How to they describe innovation in their business or region?

Within the futuristic vision, some meanings have been repeated many times (e.g., about being pioneers, leaders, or the first to do something, or doing something new and different). We discuss these meanings through the following examples:

- *Pioneers* as first movers or oldest players: "We are traditionally very innovative. We have a wine called Pioneer, and that means that we have always been, maybe that's a bit arrogant, but we have always been among the first, or the first to introduce something, inventing something in the vineyards, in the wines, and the way how to distribute or to do things." This example comes from Bassermann in Germany, but we found similar words in New Zealand and Australia. In the Old World, it is common to read companies' histories reporting their roots far back in the past, to the Middle Ages, or counting the number of family owner generations. They do this for intrigue as well as to link a winery's age to an image of know-how and expertise. In the New World, the concept is similar, even if reporting younger ages, and there as well the pioneer concept is about having been a first mover. For example, Duckhorn was the fortieth winery in the Napa Valley in the mid-1970s and owns the claim of being the first in the region to produce wine that was completely Merlot. They are now known as one of the original wineries and a super premium wine producer. Everyone likes to be first at something.

- *Towing Pioneers*: They do something completely new in a particular country or wine region, always perceived as a disruptive change, while also towing others along behind them in the area to follow their example. This was the case of Banfi, an American company established in Tuscany: "One of the main characteristics of our company is the fact that since the real beginning we have been pioneers in this area. So definitely in research, being pioneers it's one of our major characteristics . . . When we broke ground in 1978, our mantra was to not inherit the mistakes of others, but to start from the ground up to bring winemaking in Italy to a world class level . . . Our initial moves made for a bit of a revolution, but today our focus is more on evolution. It's an ongoing renaissance of Tuscan wines, in which our neighbors have joined us in raising the bar, sharing advances and developments so we can all grow together . . . Imagine we are an American family coming in to the Old World with an American vision, which was probably lacking to Italian farmers back in that time, and definitely since the real beginnings have been looking ahead, been bringing along great projects on every sense."
- *Show-off Leaders*: Some companies like to present themselves as leaders. Pioneers can be first and not claim loudly to the world what they innovate. Others like to proclaim at times. In marketing, this word "leader" is often linked to market share or brand awareness, although we found it also when talking about innovation, for different expertise. Being a leader in innovation meant to be the best in particular skills or owning a unique know-how. For example, from Napa Valley's Duckhorn: "I can mainly speak from a supply chain standpoint, but I think we are leading the pack when it comes to technology and process." We are not reporting here all of those instances where leaders were promoting their company as "the best" in doing something new, because it would take an entire book itself. So often in marketing this word "best" is used.

In other cases, the conversational style was more humble, but they were in fact real innovators, like in this Australian case from Barossa Valley: "I think my personal opinion is we tend not to assume the leadership position. We tend to sit back a little bit so I would not describe our business as being particularly innovative. I think that there are examples of innovation that you read about from time-to-time, but they tend to be things that are implemented on a small scale." However, upon inspection, we found that the managers who made these comments held narrow views of innovation, namely the view that innovation is a radical, new-to-the-world idea. But if the broader view of innovation is used, they in fact were also creating innovations of their own.

The following passage may best articulate a common theme we found on innovation: "Innovation for us is one of the most important things to survive." Although changes in product and process may not be new to the world, a change in a manner of doing business was often seen and described as innovative by participants if it was deemed a radical departure within the wine industry, within a specific region, or within a specific time frame.

We also noted numerous examples of a relative innovation, relative in that the innovations are considered incremental improvements and not a disruptive change. In particular, we present here examples of perspectives on relative innovation from two Australian companies and one from the United States:

- Is the fine wine end of the business very conservative? "Innovative, um. I think we do a lot of things, but to put my finger on one thing that we do that is absolutely innovative, nothing that comes to my mind is absolutely mind-blowing. I don't think that the industry at large is innovative. I really don't. Especially the fine wine end of the business. It's not about being innovative. It's about making sure you stick to the principles you've drawn up. And mostly the fine wine end of the business, and the luxury end of the wine business you are dealing with, rather sophisticated pallets of people who have money and look to images that are more conservative. And innovation is probably not what is conservative to the fine wine business. There's a lot of innovative stuff going on at the commercial end of the business. But I don't think we do anything innovative. I think we do a lot of things other people, other wine companies are jealous of. Perhaps that's maybe a strong word, but I don't think the industry at large is innovative. You know, we're not trying to create a wheel here."
- Is the wine industry very traditional? "So, I think what we see in the wine industry, in my opinion is that there hasn't been a lot of innovation over the years in packaging or in wine. It's very traditional. I think we're starting to see a few more varietal innovations driven through I suppose traditional European countries, but I think the space we're going into now is a lot more packaging innovation. So a lot more focus about the occasion and also the visual cues that consumers whether it'd

be female or male will look and go 'oh, there you go, that's got a perception of good quality, so therefore I'll buy it.'"

- Is the wine business slow to innovate and adopt? "That's been big for us. I wouldn't quite say it's [the wine industry] extremely innovative. It is for Oregon for sure. It's not necessarily innovative for the web in general, but for wine it is . . . The wine business is typically slow to innovate and slow to adopt and is stuck in its ways and doesn't necessarily know how to stay on the leading edge of a lot of these things."

It was interesting to note that an Italian family company owner, explaining about innovative distribution channels, said: "It is an innovation at least for Italian producers and I believe for French producers as well, maybe in America or in Australia it's different because they have more open minds than us." It's interesting because often US managers claimed most of the innovations were coming from Old World European wineries today.

Culture and philosophy are often present when discussing strategic decision processes that lead to certain kinds of innovations. As an example, an executive director of a large Italian winery, Gruppo Italiano Vini (GIV), said: "With my General Director I worked on many new innovation projects, I call it philosophy of the director. Many times we talk about ethics and about philosophy and I think that ethics and philosophy are the two main growth [foundations] where you take off [with] the innovation, there is no other way to make innovation."

The second perspective, "going back to the past," refers to innovations that privilege and respect tradition and territory. In many of our interviews there was a constant tension between maintaining tradition and pursuing innovation. The almost across-the-board excitement about innovation, while maintaining a healthy respect for tradition, was reflected not only in what participants said but the energy with which they spoke. For example, we came across wineries engaged in research and experimentation in the vineyards and/or blending primary grape varieties of the region, both with goals of producing the highest quality wines possible as well as possibly creating new blends or trying to recreate methods and varietals from the past.

The tension between innovation and maintaining tradition emerged in multiple ways. For example, some managers would consider innovation in a wine's fermentation or aging processes as acceptable as long as the fruit blends remained the same, while others felt changes of this sort violated tradition. Or changes in vineyard management for one winery might be positive innovation, while others would see this negatively as disregarding tradition. This tension of innovation versus tradition and between wineries about where to innovate is related to each owner's style of the commitment to region, another

Image 5.2 Masi—traditional method of drying grapes for Amarone.

theme from our research. Some wineries saw a commitment to the region as maintaining and defending traditions. We report here some examples from Italian producers:

- "Our history has always [been] founded on an innovative philosophy, with the deepest respect for the territory and the rules of winemaking. In the heart of Tuscany, where wine is a work of art."
- "We are now speaking about the innovation but it's not really an innovation totally but it's an innovation recovering the ancient wine making method which is totally in line with our cultural way, and the culture of our Venetian area."
- "We are part of the story of Montalcino so that's the reason why everything is played between tradition and innovation. To be innovative doesn't mean to destroy; it means to be innovative, to keep what is good from the past and bring to the future, not to destroy."

- "Our philosophy is to keep the tradition of the Italian wine production and add at this point the innovation and the capacity to create new vibes."

On the other side of the perspective, in the same wine regions, we met also more conservative approaches: "We don't want to be innovative. The issue is exactly this, in a sense that for now what is not innovative is the use of time. Our distinctiveness and the style is mainly related to the fact that our wines usually they tend to last very long and I think because there is a very long process to make the wine. Technology usually did work on shortcuts, everything which is related to technology is to make something faster and supposedly in a more economical way."

This company is similar to those traditional innovators, but they are following a different marketing style, declaring themselves classic while all the others want to appear modern, and not innovative, respecting the time of wine. They consider the word innovation synonymous with technology and modern wine making, and they are trying to avoid this meaning in their image, even if they can be considered as innovative because they too strive toward continuous improvements and quality perfection.

The continuity between tradition and innovation can be summarized in these words used by one director of Inama, an innovative wine company in Italy: "We are new traditionalists!" However, this young Italian manager views the word tradition with suspicion: "Tradition is just a word to write articles. People need to write something." His approach is the reflection of his company's culture: "Innovation is a big word. Nowadays innovation is establishing and letting growing up [evolve] tradition." His father, owner of a company with a unique brand positioning, when discussing tradition and innovation in the wine industry asked back in a sarcastic manner: "What is it doing all this technology? Things have no more real value. Nothing has really changed, it's just a fake idea of modernity in which we live. It's much better to go back to the real values, the roots and to be careful that a cloud is going to come and so you need to have your umbrella."

Innovation Forms

There are many forms of innovation. In addition to the examples about attitudes and perspectives concerning innovation, we noted numerous targets of those innovation efforts. Product innovations included obviously anything connected to enology (wine making). The larger, high-volume wineries spent time trying to develop innovative blends. But even if the wine was classical, as in a Riesling, bottle designs with light-reflecting ridges, glass closures, and peel-off labels that unfold to reveal marketing information can be viewed as product innovations. Despite wine being sold in bladder-filled boxes for years, wineries we saw attempting to apply that form of packaging to high-end wines were still considered innovative.

More impactful innovations probably were process innovations. Process innovations took place with respect to viticulture (i.e., grape and vineyard management) as well as wine production. The wide range and long list of examples include fertilizers and pesticides or lack thereof, aeration and leaf-removal equipment, fermentation-container engineering, temperature controls, energy sources, and bottling or labeling equipment. We learned about numerous solar power projects, heard in-depth about machinery that blew holes in the vine leaves as opposed to trimming them completely off, saw equipment that could reach to the rows on either side of the row it was driving down in order to process the vineyard three times as fast, and saw innovative yet still gravity-driven grape handling systems, each of which was innovative at the time it was developed.

But other processes, such as marketing processes and techniques, can be innovative. Given how traditional much of the wine industry is in terms of the way many wineries market themselves, social media and mobile apps

Image 5.3 Kloster Eberbach—innovation in production.

were rather innovative ways of connecting to consumers. For example, one winemaker told us about how he tweeted almost daily, cued in to conversations when people were dining at restaurants. When people would comment on particular locations (i.e., mentioned the name) where he knew his wine was served, and better yet when they commented on the occasion, he would tweet comments like "Why not try—? It goes great with—." Many times customers were so excited to connect with a winemaker they would retweet the comment and respond. One time he discovered this happened with a famous athlete who had a large following. This kind of approach to marketing is innovative in the wine industry even if it is more common in others.

Sharing more of this tweeting marketing manager from our study: "So it's somewhat innovative for the wine business, but then we added a new feature which I developed which is an interactive property map. It kind of feels like Google Earth, but it is all hand illustrated. There's an interactive tour. You can toggle a bunch of things on and off on a legend like the grape vine markers and things like that. And that's been really big for us, and it's also been editorialized a bit and recognized as a very cool interactive, innovative tool. And that's definitely something that I would say puts us right at the front of the leading edge for interactivity for wineries. We're working on some new mobile initiatives. Mobile optimized website as well as iPhone and iPad apps. And that's been recognized as a really innovative and unique approach, and what I love about it is the fact that you know never before has a winery had access to a consumer at the point of purchase in the on-premise environment. And not only that, but people on Twitter who are putting out a message that they've just sat down at a restaurant are so open to the power of suggestion and interaction."

Other forms of process innovation we discovered included distribution and logistics innovations. Working to reduce the carbon footprint of a "landed" bottle of wine means minimizing fuel consumption and carbon emissions from the wine production all the way to the retailer shelf in another country. At Highfield Estates in New Zealand, this is precisely one of the projects they were working on. To solve some problems required a bit of innovation, or at least tapping into logistics industry innovations that had not yet been applied to wine distribution. Highfield was very professional in the management of their brands, contemplating the effects of changes within product lines on others, maintaining the premium status for its flagship brands, and exploring areas for improvement and innovation through partnerships.

A close cousin to innovation is experimentation, and we came across a fair number of wineries engaged in experimentation.

Experimentation

What Is Experimentation?

Innovative ideas can come from many sources. One is through experimentation, which can reveal insights methodically or serendipitously. We discovered two forms of experimentation in wineries globally: formal, and trial and error.

Formal experimentation refers to experiments that are carefully designed and controlled. This formal research occurs often in vineyards and, obviously, wine labs. Testing ensures quality, while experimentation looks for precise and statistically meaningful effects of specific and controlled changes. Controlled experiments methodically document changes, known as manipulations and treatments, while holding all else constant and running a control or comparison group alongside the experimental group to see if the effects are due to the manipulation or other factors. They involve checking to ensure that treatments worked as intended and documenting every step of the process.

Mazzei in Italy was fascinating in their descriptions of research and vineyard experimentation. They described over 30 years of intense research: "We've spent a fortune, but it has paid off." The extent of cloning research being conducted was vast, some of which could not be processed into sellable wine; it was for information to be used for future decisions. "The objective is to find the best clone for the place," we were told as they experimented across their many plots of land. For the Fonterutoli line alone, they could conduct five-year vertical tastings for every one of their 120 parcels from their experiments. This allowed them to make note of which parcels were consistent as

Image 5.4 Ricasoli—their ancient room for innovation and experimentation.

Image 5.5 Mazzei 36 label—innovation in production and product.

well as their level of similarity to other parcels. Using this knowledge, they could produce a high variety of precise blends. They even produce a brand known as Mix 36, a purebred Sangiovese "unique project" from 36 different biotypes. These extremely detailed analyses of soil, climate, and terroir were bearing fruit when we spoke, even during a difficult economy.

"So this is I think our treasure and now what is the challenge for the future is how to explain to the market what we are doing. I don't want to say that this is new but for sure it's different. Because if you have another one on the other side of the world doing the same things [what] we are doing it is still different. And this is the reason why we were so successful in the last 2 years while the global economy is not too easy to manage."

One challenge Mazzei noted was that the trade (e.g., distributors, retailers, and even journalists) are "the most conservative in the world. They want to follow the large trends." The challenge is to convince them what the science says is possible and correct for a particular terroir. Possibly, this may be a larger problem in New World markets, where traditionally it is thought that consistency within varietal, even from vintage to vintage, is more important than it is in Old World markets, where terroir is traditionally thought to be more important, and vintage to vintage variation is expected and even valued. The US market seems to be gradually moving toward higher levels of sophistication, and on a large market scale may be more concerned with vintage in the future.

Schloss Vollrads described experiments they were conducting with organic processes, and commented on how transitioning to new processes even when proven viable is difficult because it requires those who work the vineyards to also believe in it. When they have been trained under other systems, they resist change. Yet, Schloss Vollrads see themselves as innovative; they were one of the first wineries using alternative closures—glass stoppers in 2003—and they invented the machinery for putting the glass stoppers on the bottles mechanically.

A funny personal story on this point is that upon opening a Schloss Vollrads 2013 Kaninett, Dan marveled at how useful and cool the glass stopper was. When he texted the image to Paola, she commented like it was very normal for her, "I know, my neighbor (winemaker) here [in Italy] is already using it." We have yet to see them in the United States, although we have not hunted for them. The point is that innovations sometimes move quickly, while others take quite some time to become accepted in foreign markets. Changes in wine packaging often take time to transfer, but 12 years?

The largest wine producers with whom we met in the United States and Australia, some of the largest producers in the world, each also engage regularly in experimentation for almost every aspect of the business. Many New Zealand wine producers like to be seen as modern and innovative, and many of them engage in formal research projects. Ricasoli in Italy described experiments they pursue this way: "So what we have been doing is not finished yet, it was a very, very big investment in vineyards, a very focused experimentation in the vineyards. We have the only winery so far, at least in Tuscany with the perfect knowledge of our territory. We made exhumation research so basically now we are able, and now we arrive at the sustainability. We did a very careful research on our soils, on our microclimates with some of the universities in Italy.

"First of all I believe the strong link of the family of the brand with the region with the Appellation, thank god Bettino Ricasoli was the inventor of the Chianti Classico. In some markets it's very important, in some others history is not one of the major messages. Secondly, why the quality that I am making so far is so unique and all the experimentation that we have been doing its helping us a lot. Thirdly, I would say, so we said first of all the history, second the uniqueness of what we have been doing here at Brolio and third which I believe is the most challenging message is what Ricasoli will be doing in the near future."

And as an example of trial-and-error from a US producer: "It's very informal today, it happens as our senior leadership is out surveying stores, talking to customers, and it spurs ideas and a lot of those end up being new brands or new concepts. Sometimes we come up with those new brands and concepts here and we take them out during those surveys"

The strategy-process literature is full of examples of successful innovation that is the result of luck and the recognition of opportunities linked with discovery. Competitive imitation and the ability to make fortunate discoveries by accident are necessary to overcome internal resistance to dramatic changes.

A great deal is learned through trial and error. In an intensely competitive industry, companies try new ideas constantly to see what will help them break out of the noisy market spaces within which they compete. Sometimes even marketing tactics are trial and error. For example, we visited a US winery that decided to combine original art, a vineyard concert, and wine tastings in an event for the first time just to see how well it might work. Another one started offering basic 30-minute wine blending classes for an extra fee to groups of four to eight guests at a time in a private room off of the winery's retail shop. Visitors wound up loving the educational angle and enjoyed playing around with their own blends. Sometimes an entire business is trial and error, modified until it is designed correctly or, if it never reaches that point, is shut down.

Summary

Innovation and experimentation are two common discussion topics driven by managers all over the world in our study, yet they are not referenced with consistent agreement everywhere. As we demonstrated, some do not see innovation anywhere in the industry while others not only see it but claim to be driving it and to have driven it for 30 years. We discussed how innovation is in the eyes of the beholder and can be radical or incremental. We shared attitudes about innovation, described insights to various entities engaged in innovation, explained various forms of innovation, and connected innovation to experimentation. Innovation and experimentation are here to stay in the wine industry, and we see more and more sharing possible within regions and across borders. In such a competitive industry, though, wineries will need to overcome their fears associated with the risks of losing competitive advantages.

One area where innovation and experimentation occurs within the wine industry concerns sustainability. At times, this innovation appears like the "going back to the past" form of innovation we explained. In the next chapter, we reveal a great deal more about sustainability as it relates to this important agricultural, consumer-focused, artistic, and scientific yet ancient product known as wine.

CHAPTER 6

Sustainability

Case Vignette: Misty Morning Winery (pseudonym), United States

Overcorrecting is the downward spiral of conventional farming, according to the winemaker for Misty Morning Winery, a small premium producer in the Napa Valley. Acquired by a French entrepreneur a few decades ago, Misty Morning produces Bordeaux varietals while keeping a focus on sustainability. The winery is part of a large foundation where profitability and growth for the winery are not concerns. The owners "do not need the money"; however, they are interested in the sustainability of the property due to its sentimental value and purpose. Misty Morning is dedicated to environmental stewardship and philanthropy. They adopted organic and biodynamic farming practices for the estate grapes that comprise 100 percent of their supply, and all of the proceeds from wine sales go to the foundation to support research.

"I think it [sustainability] affects the quality of the wine yeah, for me it's a slam dunk and it's also you're bringing the land into balance so when you have vineyards that are dependent on the chemical fertilizers it's kind of like you're always over-steering. You know when you're in a boat and you're trying to keep it straight and you think you're doing a good job and you look back and you're way off. You get into this mindset where anything that you see in a vineyard there's something in a bag that you can apply to do it. It's like a lot of Western medicine is the same way. Diet is the same way, you go to the health food store and they'll give you supplements for everything."

The winemaker considers himself to be a purist; he prefers to make balanced food wines that age well. The business model and emphasis on sustainability allow for this. Because the region of Napa in which they are located has consistently good weather, he feels that there is no reason not to farm organically. They get little rain during the growing season, and pests are easy to manage. He therefore feels that spraying chemicals is lazy, and that cultivating healthy soil is the right solution. These practices are part of the story they tell their customers, and the icing on the cake is that the profits are donated! "The mission is to take care of the vines, take care of the property, make great wine, run it responsibly and turn the profits over to the foundation that's pretty much the mission."

Sustainability

Sustainability is a popular buzzword in business, but what is it? The Brundtland Commission defined it as meeting the needs of the present without compromising the ability of future generations to meet their own needs.[1] In business, it is commonly referred to as achieving the "triple bottom line," or achieving business success with respect to social, environmental, and financial objectives. This chapter explains these three dimensions of sustainability and provides examples from the wine industry. It also identifies those practices specific to this industry and current trends with respect to certification and customer/public perception. Finally, it discusses the impact of sustainability on competitive advantage in the industry.

Dimensions of Sustainability

Financial Sustainability

The first dimension of sustainability is financial endurance. This is achieved when a business makes enough revenue to cover their costs and continue operating. The base level is survival of the business. Some argue that financial viability is necessary in order to practice environmental and social sustainability. Others feel that it is not, but that financial performance may result from the other two dimensions. There is agreement, however, that a business cannot continue indefinitely without some means of funding.

Due to the level of competition and the high costs to operate in the wine industry, financial sustainability has been difficult for newer entrants. A popular joke in the industry is, "How do you make a small fortune in the wine industry? You start with a large one!" The recent economic downtown also made it difficult for even businesses with longer histories to function. Additionally, survival is contingent on having people in place to take over the business. For family-run businesses this means counting on future generations to get involved. Several multigenerational producers in the Old World are concerned about this, as the industry as a profession is not as attractive to Millennials. Some are turning to nonfamily members to take over management. Others are selling to larger alcoholic-beverage companies such as Diageo, Pernod-Ricard, and Fosters Group.

Some wine businesses do not care about financial sustainability, such as Misty Morning Winery in the case vignette. These businesses are oriented around passion for the product rather than making money from sales or having a business orientation. One producer explained his philosophy: "And all of our work was associated with developing a premium wine. There was no desire to make money as a final objective; the objective was to create a lifestyle in the process of making premium wine." Some wine businesses were started with a great deal of capital, and the founders' objectives were simply to pursue their passion, often as part of a second career. These companies will simply operate until the founders no longer run them or have the funds to run them.

Environmental Sustainability

Environmental sustainability means minimizing the impact the business has on the natural environment. It has received a great deal of interest in business, particularly in marketing and supply chain management because of the impact these activities have on the environment and the growing consumer interest in businesses' sustainable practices. Comprehensive studies have found that pursuing environmental sustainability can result in firm operational and financial performance, which also spurs company interest in this topic.[2]

The environmental dimension is generally the most salient of the three in the wine industry due to the fact that wine is made from an agricultural product.[3] Vineyard practices generally receive more attention than wine production practices, but a whole host of initiatives were mentioned in the interviews and are summarized in Table 6.1. Most businesses in this industry consider environmental sustainability as part of their operations, and some have people in "sustainability positions" in their business where the individual is responsible for sustainability policies and activities. However, most do not publicize it, and some even hide it. This is due to the public perception about the quality of sustainable wine, which will be discussed in the next section. Because the primary input is an agricultural product (i.e., grapes), the key concern is that the land is cared for so that the soil is healthy and can produce quality crops.

One producer in South Australia not only cares about sustainability, they hired an individual whose sole purpose was to infuse the company culture with an orientation toward it (i.e., essentially a focus on improving the triple bottom line mentioned earlier). This individual conducted research on the value of existing programs and the meaning of sustainability within the company. He discovered that most felt sustainability was tied to the environment, and with the help of others, he developed broader pillars of sustainability around which they built new initiatives. They have even been working with supply chain partners on initiatives, as he feels "we are only as good as the

Table 6.1 Environmental sustainability practices in the wine industry.

Vineyard practices	*Winery practices*	*Packaging practices*	*Other practices*
• Natural meadows or growth between rows • Drip or no irrigation • Collecting and processing rainwater • Using no chemical fertilizers or pesticides	• Using solar panels for energy • Collecting and processing rainwater • Processing solid waste into fertilizer • Having a LEED-certified facility • Gravity flow processes • Building into hillsides to naturally control temperature	• Lighter weight glass bottles • Less cardboard • Alternative packaging materials (e.g., plastic) • Using certified cork	• Measuring carbon emissions of product • Obtaining supplies from local suppliers • Running vehicles on alternative fuels such as biodiesel • Recycling • Shipping via rail rather than motor • Restoring land near the facilities • Purchasing carbon offsets

Image 6.1 Winery (Weingut) solar panels in Germany.

weakest link in our value chain." They have taken this proactive approach to sustainability because, as our research participant explained, "the primary reason being we're doing what we're doing because it's the right thing to do morally, economically, socially and environmentally. In other words we want to survive and sleep comfortably at night."

Social Sustainability

The final dimension of sustainability has to do with the impact a business has on society—the health and safety of individuals who work for the company and live in the community in which the company and its operations are located. In the business environment, this is commonly referred to as corporate social responsibility. This is often the most visible aspect of sustainability due to the public perceptions that arise from irresponsible actions—for example, in the 2000s, reports of Walmart mistreating their employees resulted in public outrage and efforts to boycott the retailer. Social sustainability is therefore believed to have a significant impact on firm performance.[4]

Interestingly this aspect of sustainability gets the least attention in the wine industry. This is a surprise because the product (1) is an alcoholic beverage, (2) is regulated by the government in many markets, and (3) uses migrant workers to harvest grapes in many countries. It is possible that most wine companies simply don't consider this as something separate from how they naturally run their business. However, those that do specifically pursue social responsibility are very serious about the initiatives they put in place. One Australian retailer acknowledged the fact that the product is an alcoholic beverage "Because you have to be careful with the responsible service of alcohol, if you are selling wine over the Internet you've got to make sure the person purchasing that wine is over 18 years of age, when you deliver that wine you've got to make sure that it is going to the right person, and things like that . . . you've got to adhere to the responsible service of alcohol."

In the United States, many of the vineyard workers are temporary hires from Central America. A producer in Oregon desired to contribute to these part-time workers' welfare and explained, "We feel like we have a responsibility for each of the people who are on the vineyard, and there's a great organization out here that provides healthcare to Oregon's vineyard workers and their families—and since we've opened the tasting room we've always given all of our tasting fees to that organization."

Some businesses in the industry simply contributed to the communities around them by collecting donations for local charities or supporting ecosystem development. A California producer that considered themselves to be quite sustainable talked about providing food for the community and involving others in the process, "We plant vegetables. It's [some of the soil] kind of too wet, it isn't really appropriate for grapes, perfect for vegetables. So we've been talking to the cooks that run the farm worker camp and talking about what he needs so we'll be planting cilantro, and tomatoes and the stuff that they need. We actually go to the local high school and they come out and harvest and deliver. We do that and so it kind of gets the whole community, it starts the youth in the community involvement in process."

Sustainability in the Wine Industry

There are some issues with respect to sustainability that are specific to the wine industry because wine is made from an agricultural product and has a visible public profile. Of course, some wine businesses simply follow these practices because they believe in them; they have a management orientation toward sustainability. As one producer summarized, "I think it's the best way, and it, you know, it feels good." Although any firm in the wine supply chain can implement such practices, it is generally the producer that drives them, as most are related to making the wine. These practices and their perceptions will be presented in more detail.

Contemporary Practices

Because wine is made from grapes, an agricultural product, the primary sustainability practices used in the industry are organic and/or biodynamic farming. Organic wine is made from grapes grown in accordance with principles of organic farming, which typically excludes the use of artificial chemical fertilizers, pesticides, fungicides, and herbicides. Biodynamic farming techniques utilize the vineyard's natural resources to cultivate the highest quality grapes without the use of pesticides, synthetic fertilizers, or genetically modified organisms. Biodynamic farmers combine self-correcting and counterbalancing elements in nature, such as specific bird species that hunt the pests that plague vines. These two practices are similar in that both take place without chemicals, but biodynamic farming incorporates ideas about a vineyard as an ecosystem, and also accounts for things such as astrological influences and lunar cycles. Both are considered to be sustainable practices in that they eliminate the introduction of chemicals, which promotes long-term health of the soil.

Organic farming is more popular in the industry than biodynamic, although there are a few producers, particularly in Oregon, that practice both. Reasons for this are that these practices are more familiar and there are more certifications related to organic farming (see the following section). Producers in the Old World feel that they have been farming naturally or organically all along as their regional wine quality regulations are extremely restrictive; they leave everything up to the terroir or the natural environment in which the wine is produced.

"At Château Smith Haut Lafitte, we implement the traditional viticulture techniques such as earthing-up the vines or horse ploughing of the fragile and sharp plots of white vine. We totally banished any chemical product and favor organic methods to fight against the various dangers that threaten the

Image 6.2 Smith Haut Lafitte—horse ploughing.

vine: mating confusion of the grape berries moths with pheromones, use of the typhlodromus mites which are the natural predators of the red spider mites and prevention of the grey rot thanks to the bacillus subtilis that naturally prevents the development of the botrytis, among other processes. We enhance the vine growing cycle with organic compost made of vine shots left over from pruning, grape pomace and manure from cows and horses. This natural fertilization system improves soil's living quality. We strengthen as well the fauna diversity of the vineyard through a hedge plantation program of more than 500 meters per year and the implementation of several beehives."

As one research participant described a wine type from the Veneto region in Northern Italy, "The way Amarone Classico is made it is completely organic; actually it's even more than organic, it's a wine that comes out after 8 years completely. The only thing we have to do is look at the wine, nothing is put in, the whole process is based not on forcing the wine, but waiting for the wine."

Another practice related to the wine industry is minimizing the carbon footprint of the entire wine-making process. Some producers have even become "carbon neutral," which means that they not only minimize the carbon footprint of their wine, but they also purchase offsets to compensate for the carbon they do emit. Seventeen producers in Oregon participated in a Carbon Neutral Challenge that subsequently became part of a sustainability certification in the state. Many producers in New Zealand strive to label their wines as carboNZero once they meet the requirements for eliminating carbon produced from their product (see Figure 6.1 for an example of this). There are even producers that are considering developing new products designed to be carbon neutral from the start: "What I've proposed to the business is that we develop a carbon neutral wine for sale to a nominated major customer."

Figure 6.1 carboNZero labeling.

Certification

There are numerous organizations or associations that offer sustainability certifications in the wine industry (see Table 6.2). Certifications are voluntary and are a means to demonstrate that specific practices are used, as an Australian producer described: "Yes, having certification for us means that we can now advertise as being organic. If you're not certified you're not organic." The certifications may target a specific piece of the process such as the growing of grapes or wine making. Some are specific to organic or biodynamic agricultural practices. A handful are much more general with respect to sustainability practices, such as the International Organization for Standardization's environmental management standards. One California-based producer decided to pursue ISO 14001 certification rather than being certified organic because they believed this to be more comprehensively sustainable. A small percentage in the United States have even gone so far as to construct LEED (green building leadership)-certified facilities to support their operations.

Table 6.2 Sustainability certifications in the wine industry.

Region	*Certifying organization*	*Reference*
Australia	National Association for Sustainable Agriculture Australia (NASAA)	http://www.nasaa.com.au/welcome1.html
Australia	Entwine	http://www.wfa.org.au/entwineaustralia/
Austria	Austrian Winegrowers Association Certified Sustainable	http://www.austrianwine.com/our-wine/sustainability-in-austrian-vineyards/certification-programme/
Chile	Wines of Chile Sustainability Code	http://www.winesofchile.org/sustainability/wines-of-chile-sustainability-program/sustainability-code/
France	Agriculture Biologique	http://www.ecolabelindex.com/ecolabel/ab-agriculture-biologique
International	ISO 14000	http://www.iso.org/iso/home/standards/management-standards/iso14000.htm
International	Global Wine Sector Environmental Sustainability Principles	https://fivs.org/home.htm
New Zealand	Sustainable Winegrowing New Zealand (SWNZ)	http://www.nzwine.com/sustainability/sustainable-winegrowing-new-zealand/
New Zealand	CarboNZero	https://www.carbonzero.co.nz/
South Africa	Sustainable Wine South Africa	http://www.swsa.co.za/
South Africa	Integrated Production of Wine	http://www.ipw.co.za/
United States	USDA Organic	http://www.usda.gov/wps/portal/usda/usdahome?contentidonly=true&contentid=organic-agriculture.html
United States	Certified Naturally Grown	https://www.naturallygrown.org/
United States	Biodynamics and Demeter Certification	http://www.demeter-usa.org/
United States California	Certified California Sustainable Winegrowing (CCSW)	http://www.sustainablewinegrowing.org/certified-sustainable-winegrowing.php
United States California	California Sustainable Winegrowing Alliance	http://www.sustainablewinegrowing.org/
United States California	Napa Green	http://napagreen.org/
United States California	Sustainability in Practice (SIP)	http://www.sipcertified.org/what-is-sip/
United States New York	Long Island Sustainable Winegrowing	http://www.lisustainablewine.org/
United States Oregon	Low Input Viticulture and Enology (LIVE)	http://liveinc.org/
United States Oregon	Oregon Certified Sustainable Wine (OCSW)	http://osbsustainablefuture.org/home/section-newsletter/20102summer5buckenmeyer/
United States Washington	Winegrowers Sustainable Trust (Vinea)	http://vineatrust.com/
United States Washington	Washington Guide to Sustainable Viticulture (Vinewise)	http://www.vinewise.org/

Certification is most popular in the United States, Australia, and New Zealand; this is largely due to the fact that certification organizations have existed in these regions for a longer period of time. In fact, nearly all wineries in Oregon and the Napa Valley in California hold a certification of some kind due to the industry philosophy in those areas. New Zealand mandates that a producer be certified in order to export their wines! That is not to say that others do not adopt sustainability practices, but certifications are not available everywhere. An Italian producer noted, "Certainly it is a very important issue . . . and nobody really knows what's going on in the sense that there are no standards, there are no certifications." Another reason for lack of certification is that wineries may choose not to become certified because it takes too much effort or they feel it will interfere with their business, as one research participant explained: "We are not certified organic, and we certainly are not biodynamic. For instance, in a year like 2007 we would have hardly picked a berry because it was a year where there was so much moisture around that in the growing season we needed to spray our vineyards." For some, if it comes down to choosing between remaining organic and watching their crops fail or spraying to save their business that year, they will choose the business!

Perceptions of Sustainability

Sustainability is important in the industry all around the globe; however, it is viewed differently in Old World regions than it is the New World. In the Old World, wine making is undertaken naturally, and therefore sustainability is seen as simply "business as usual." Wine businesses in Europe do not label, advertise, or even really talk about sustainability, as an Italian producer explained: "We don't use sustainable in Italy as a word so much because, of course it is mentioned in the United States every other day, so the question should be what do you mean by sustainable because for us sustainable means a sustainable environment." Whereas in the New World, sustainability is not only discussed, but also pursued. Producers in these regions try to determine the best all-around practices to use (whether organic or biodynamic farming, reducing carbon emissions, recycling, or other practices), and this can sometimes mean trade-offs. For example, one California producer struggled with organic farming and noted, "We're trying to be organic—we can't use Round-up to kill weeds in the row so we're using a mower that goes in and out of the row. It takes a long time, we have to do it several times. From a carbon footprint point of view that's worse than the Round-up because you could go through with one pass and save fuel with lighter equipment."

Many individuals say they care about sustainability, and many practice it in their lives through recycling, minimizing carbon emissions through bicycling or using public transportation, or purchasing certain products that are organic or sustainably made. Over the past decade, organic or natural product stores have become more popular, and the products they offer are sometimes more expensive than their nonnatural or nonorganic competitors. However, when it comes to sustainable wine, the industry perceives that most consumers are skeptical, and therefore, they don't want to make it or at least not advertise it as such. One thought is that consumers don't understand what organic, biodynamic or sustainable wine is; if they are confused, they will stick with what they know—conventional wine. Another thought is that consumers perceive that sustainably made wines don't taste as good. Producers initially did not have much luck selling it. "But when we started putting the organic on the label . . . this was '98. The perception of the brand decreased quite significantly," and "Not so very long ago having an organic certification was an Achilles heel because there were so many weird organic wines out there."

Consumers even balk at the quality of wine in more sustainable packaging, "Another thing we have is heavy glass; we talk about this all the time. It's not green, it's not responsible, and I totally agree but our customers don't want green, responsible glass right now." The perception has been that heavier glass bottles and real corks equate to a higher quality wine. However, the perception of packaging has been changing.

Producing sustainable wines can be more labor intensive and thus more costly. Businesses therefore need to charge a higher price in order to maintain their margins. Even consumers who are interested in sustainable products will sometimes forgo them if they cost more. An Italian producer noted, "In Italy it's very difficult . . . people want organic but they won't pay that's the problem." It has been in only the last few years that reports in the popular press have stated that some consumers are more willing to pay for "greener" or "socially conscious" products. A Washington producer said, "I don't think the vast majority of consumers care at this point. I think that's probably the biggest issue is that they might talk about it, but when it comes to their buying decisions they're going to vote for their pocketbook every time." Ultimately, most wine businesses that practice sustainability just don't tell their customers.

A surprising issue related to consumer perception is that some producers find the various practices confusing as well. In California, one winemaker stated, "I don't think most vintners understand it [sustainability] so I don't know how consumers would." Some do not even understand or agree with the overall concept as explained here, "What is sustainability; tell me because I want to know, nobody has ever explained it to me because every time they try to explain it to me I found it ridiculous."

For some of the producers who do understand and choose to practice sustainability, they generally feel that even when the consumer is not interested, other customers (i.e., retailers) are. A sustainability manager from one Australian producer noted, "I think the worst involvement is from the consumer because they're not interested. The customer is interested—the customer being the retailer to us." A California producer's purchasing manager echoed, "The consumer really hasn't started looking for it like they look for organic or something like that, they haven't been looking for sustainable; it is pretty much the people who are selling the wine. It's moving down from the supply chain as opposed to being pushed back from the consumer." The consensus seems to be that retailers or producers are the drivers behind sustainability in the wine supply chain (see chapter eight) and they then demand that from their suppliers and/or customers as summarized by a producer's sustainability manager, "You know, I think sustainability is a concept that is driven, it seems to me that it is driven largely by the supermarkets because they believe it's what their consumers want. Now it could be that because of doing it that the consumer then believes that they want it, but it's almost as if the concept has started in the middle of the supply chain that's being pushed out in both directions." It is not surprising that producers and retailers instigate specific practices since they are typically the most powerful players in the wine industry.

Competitive Advantage from Sustainability

One of the concerns of businesses in the wine industry is whether sustainability is worth it. In other words, does it contribute to achieving a competitive advantage? Those practices that do are the ones that businesses most want to implement. As noted previously, there are certain wine regions that tend to pursue sustainability and advertise that they do. However, as described in chapter thirteen, individual companies within a region do not feel they compete against each other (see the trend of "coopetition"). They cooperate and work together to promote and sell the wines from the region. Thus, wine businesses from regions that care about sustainability are likely to adopt and share similar practices, which means individual firms do not set themselves apart from competitors. This was precisely the case in New Zealand, where all wine businesses were concerned about sustainability, and the government mandated certain practices in this area to sell wine. Likewise, regions in the Old World have strict guidelines on how grapes are grown and wine is produced within the region. Hence, if everyone is doing the same thing, an advantage of one over another is not really possible.[5] In this instance, an advantage could be achieved if consumers choose one region's wines over another—say, Oregon Pinot Gris over Alsace Pinot Gris—due to the reputation the region had achieved. However, regional reputation is generally tied to the history and quality of the wines and not whether they are sustainably produced. Therefore, sustainability doesn't really contribute to a competitive advantage for wine producers at this point in time.

Some feel that there are more subtle advantages than outselling their competitors. For example, Misty Morning's winemaker and general manager appreciates the freedom and flexibility to make and sell the wines he wants to because of the business model the company has (profits being donated to a foundation rather than being returned to stakeholders). Having worked previously for another producer driven by quarterly returns, he feels Misty Morning has an advantage because his responsibilities now are to "take care of the vines, take care of the property, and make great wine," and he feels the product is better because of it. For those that have a sustainability orientation, achieving an advantage or even improved performance from it doesn't necessarily matter. Sustainability is simply important in the way they make wine and conduct business as noted by a winery sustainability manager in Australia: "It is a journey, not an endpoint."

Summary

This chapter first explained the concept of sustainability and its three dimensions—financial, environmental, and social. It also provided examples of each of the dimensions in the wine industry. It then identified current trends in wine sustainability such as organic and biodynamic farming and reducing the product's carbon footprint along with sustainability certifications and perceptions of these issues in the industry. Lastly, it discussed whether sustainability provides a competitive advantage for those that implement it.

If sustainability is important but not generally the differentiator it might be, wineries must rely on other means for managing their brands; we talk about those next, in chapter seven.

CHAPTER 7

Brand Management Fundamentals

Case Vignette: Banfi, Italy

Castello Banfi di Montalcino is "unique in the wine world in Tuscany and in Italy," so we were told by the marketing director. It is a US-owned winery (owned by Banfi Products Corp.) that started in Italy in the late 1970s. Banfi Products was founded in 1919 in New York by John Mariani Sr., and focuses on the production and import of wine, helping to manage the brands of over 30 wineries. Banfi Vintners is the US importer of the Mariani family's Italian estates and other wineries. The Mariani brothers brought the Banfi name to Italy in 1978. The winery we visited was the first one they opened of several, Castello Banfi di Montalcino. Montalcino in Tuscany is the literal heart of Brunello wine, one of the most elegant and sophisticated of Italian wines, wines that can also be some of the most expensive. Also in the region are Banfi Toscana and Banfi Piedmonte.

Worldwide marketing at Castello Banfi di Montalcino (hereafter referred to as simply Banfi), except for the United States, is directed from Italy, with a majority of the focus of marketing attention (nearly 70 percent) on Italy itself, but company overall strategies and American marketing are managed at the US corporate headquarters—"the Mother Company." The powerful advantage, though, was that when the winery was launched in Italy, it already had an established distribution network in the United States.

Banfi has a sizable sales force and a well-honed marketing discipline. They understand their markets and how to remain close to them. The marketing department remains close to the global sales force, which also enables them to remain close to importers. In order to stay close to their markets and position brands accordingly, salespeople work directly with importers and customers. Together they design and execute local campaigns and promotions. The marketing teams at Italian head offices develop branding materials (collateral) that will assist area managers. Marketing gives directional guidance to

Image 7.1 Banfi Castle—hand-picking grapes.

the field. For example, Brunello is their most important product. There are different target markets in each country. Marketing monitors whether the importers are targeting the correct customers every month if not every two weeks, providing assistance if they are not or are having difficulties. Many of the tactical decisions around positioning the brands regionally are left to area managers in the field.

Banfi likes to be known as "innovators by tradition." From the beginning in 1978, which would be relatively recent by Italian winery standards, they have been innovative and have driven research projects in the vineyards, with the grapes, and in processing. In fact, a privately published book they have titled *The Importance of Excellence* showcases many of the research projects Banfi has undertaken. That said, Banfi feels it is very important to remain true to the tradition of wine within Montalcino. "We are trying to make research to improve our work here in Montalcino yet keeping a very tight bond to the tradition of this terroir of this area."

They claim with strong authority to be one of the very few wineries in Italy with such a strong and organized marketing department. They centrally manage global communication about their awards, certificates, and projects, such as their sustainability initiatives. For example, they have worked with glass suppliers to reduce the weight of the glass (innovative and sustainable) while not impacting the traditional shape, style, and image (tradition). In managing its brands, Banfi does not coordinate with other wineries, even those within the corporate umbrella. This helps them maintain their own winery and brand identities. At times, they may join other initiatives designed to help promote Italian wines more effectively in other European countries.

Banfi, a significantly sized winery, sees itself as competing with other large, international, well-known wineries such as Antinori and Frescobaldi. The issue the marketing director stated that Banfi and these other wineries face is that within Italy their brands are associated with the wine varietal and the Montalcino subregion, but internationally, such as in Hong Kong, they all are associated simply with the broader region of Tuscany. She likes the strategy of each estate having a unique brand identity while being supported by an overall Banfi guarantee and image. She saw some of her competitors doing this well while others did not so much. Banfi likes consistent and congruent brand messaging, with brand management at the individual brand level tied cleanly to the corporate larger predominant brand. However, some large wine producers go too far and come across as being too commercial with too many aggressive campaigns and promotions that make them appear like a standard consumer goods product. She felt that this was inappropriate for wine, especially Italian wine.

We talked a lot about how economic times makes brand management challenging. In the recent economic recession, it was no longer enough to merely announce that a new vintage from Montalcino was available, something that worked in good times. It became very difficult to be original, to break out of the pack. They were trying new marketing messaging and new products to create awareness and interest. To create some interest, they tried new campaigns for their brands. For example, in 2010, Banfi reached out to their restaurant customers in Italy through their agents to comarket a New Year's Eve event. If the restaurant agreed to serve only their wines on that extremely crowded night, Banfi would provide wine glasses for every patron at the restaurant and print up elegant menus. They printed over 120 different restaurant menus made available all over Italy with only their wines and presented in the way they, Banfi, wanted. This is important. In classic brand management, one wishes to control how logos and messages are presented. The marketing director told us that customers (i.e., restaurants) would often place their logos on menus that were less than ideal for the image of the brand. This affects brand equity. This New Year's campaign essentially was an awareness campaign. Many people who normally might not drink or even be aware of Banfi saw the logos on every table, menu, and wine glass at these restaurants. The final interesting point about this promotion is that the idea came from their customers.

Marketing at Banfi also helped organize many events such as winemaker dinners and tastings. They would coordinate with customers for these sorts of events around the various regions. At the time, Banfi was just starting to look into consumer-level mobile apps. Most of their marketing was traditional, tight brand management at the market level. And although consistency of image is important, specific promotional tactics are localized decisions. For example, price discounts on neck tags works in some markets, such as the United States, but not in Italy.

Banfi Products thinks of its portfolio in terms of families. The Castello Banfi family is historic and traditional, estate grown, with crown jewel brands of the winery. The brands in this part of the portfolio are managed consistently, even though each one is unique, such as Brunello di Montalcino, Brunello di Montalcino Riserva, Excelsus, Cum Laude, and Summus. Under the Banfi Toscana family they manage another part of their portfolio that represents wines with a younger personality and even a line of lower-priced brands such as four different Chiantis and eight blends. That said, both families have an essentially "old fashioned look" in her eyes. The marketing director described with excitement a new wine they were getting ready to launch that was "completely different" from the wines in their current portfolio, with a newer label, an energized personality, but interestingly she said that "the U.S. didn't want it because it was different." This is interesting because the US market is often characterized as wanting new, innovative, and modern wines. However, when they think of wines from Tuscany and specifically wines they know from the region like Banfi, they expect traditional. This highlights how existing brand equity makes it challenging to change a brand image or modify it.

But again, tough economic times also mean some brand-management strategies cannot be executed even if they were helpful in the past. Limited resources mean limited marketing budgets at times, and limited-funds customers have to pay their bills, thus they order less. So Banfi Products' successful and consistent gift box catalogs from some years past were not executed in 2012 because companies were no longer giving gifts in Italy like they had been.

Brand Management Overview

Brand management in the wine industry does not often follow standard brand-management guidelines as practiced in other industries, such as the broader fast-moving consumer packaged goods or consumer electronics industries—at least not formally. Specifically, you will not hear terms such as brand architecture and brand equity often unless speaking with large corporations or leaders experienced in brand management. Very few wineries have established marketing departments; many do not even have a marketing director. That said, marketing does occur, especially if we include professional selling or business development in our broad definition of brand management. However, we leave professional selling for another chapter. We will offer ideas on brand management as it is and could be applied to the wine industry. But first, what does occur in the wine industry?

Brand management is actually quite tricky and potentially complex in the wine industry. The brands being managed exist at numerous levels and include individual wine labels within a product portfolio sold by a winery, the winery itself, specific wine regions, consortia/clusters, and nations. Directors and executives at wineries are often simultaneously managing brand images at all of these levels. It depends in large part on the objectives of the director as well as the opportunities and constraints within the wine region where the winery resides. For example, despite a Bordeaux winery's desire to have an individual French chateau be known internationally, or even better, by its individual labels, often only a few of the nearly seven thousand chateaux in the Bordeaux region have the resources to market powerfully enough to achieve this. Therefore, a great deal of marketing effort is focused on marketing the Bordeaux region instead of just the wine labels.

As we heard from leadership at Chateau Sichel, Bordeaux wines have too long been seen as expensive, complex, and unapproachable. Therefore, consortia are, as of this writing, engaged in a global campaign designed to be consistent and simple—"Bordeaux wines: there is so much to discover. From tradition to innovation, see everything the world of Bordeaux has to offer."[1] The campaign is presented in a fun, straightforward, and informative way. Interestingly, in 2007 and 2008, the New Zealand Wine Growers ran a similar campaign with the tag line "New Zealand Wine—Pure Discovery," which was based on research suggesting that New Zealand wine had a favorable image and conjured up feelings of adventure and discovery.[2]

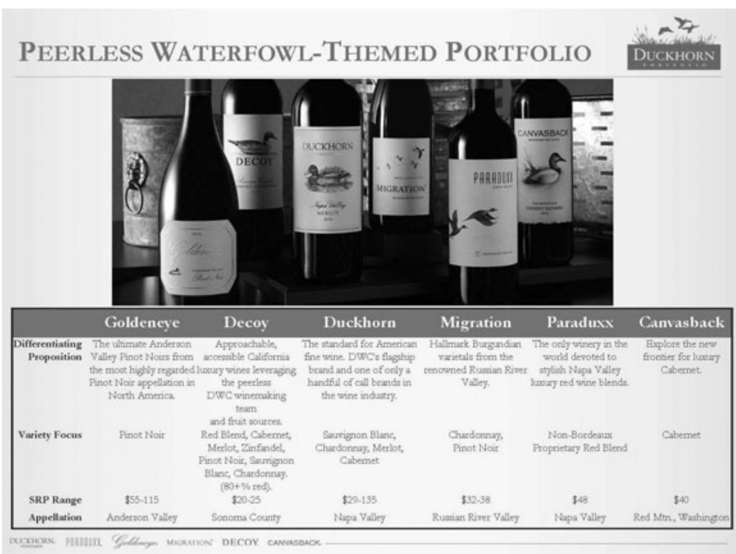
In both the Bordeaux and New Zealand situations, the branding challenges for individual labels were so significant, due to the hypercompetitive nature of the industry, that in order to create awareness and excitement (and overcome preconceived notions in Bordeaux's case), branding efforts needed to be collective and focused on a region. So brand management does not need to apply only to individual product brands/labels. But before getting into levels of branding any further, let's look at what standard brand management entails.

Brand Management Terminology

There are a number of standard terms used in brand management we should cover initially. Brand Architecture is one of them. Brand architecture refers to how a company combines and structures its products and services and makes connections between them within and among its product portfolio. It helps define a brand's identity and where it fits within a portfolio of brands. Some brands may be estate-only wines, while others are blends and made from purchased grapes. A brand architecture can involve deciding the kinds of brands that will fit into simple categories such as red versus white wines in a portfolio, or more complex divisions such as by white varietal (Chardonnay, Pinot Gris, Riesling, Sauvignon Blanc). Architecture can include wine brand availability: some may be available only at the winery, while others only on premise (in restaurants) or in almost every retailer.

Brand Positioning is another important term that refers to how customers perceive a brand within a specific product or service category, often thought of as the mental space the brand occupies. A brand can try to position based on attributes such as price (low, medium, premium, ultrapremium), wine complexity, wine quality, or location prestige. However, many wines position on these same elements. In 2001, when the Australian brand Yellow Tail was launched, it was positioned on fun and approachability since it really couldn't claim complexity, location prestige, or premium quality positions. It worked, and now the leading profitability wine is well known.

Brand Equity can be thought of in two very different ways. The first is the value, meaning, and power a brand has within the minds of customers. The



	Goldeneye	Decoy	Duckhorn	Migration	Paraduxx	Canvasback
Differentiating Proposition	The ultimate Anderson Valley Pinot Noirs from the most highly regarded Pinot Noir appellation in North America.	Approachable, accessible California luxury wines leveraging the peerless DWC winemaking team and fruit sources.	The standard for American fine wine. DWC's flagship brand and one of only a handful of call brands in the wine industry.	Hallmark Burgundian varietals from the renowned Russian River Valley.	The only winery in the world devoted to stylish Napa Valley luxury red wine blends.	Explore the new frontier for luxury Cabernet.
Variety Focus	Pinot Noir	Red Blend, Cabernet, Merlot, Zinfandel, Pinot Noir, Sauvignon Blanc, Chardonnay. (80+% red).	Sauvignon Blanc, Chardonnay, Merlot, Cabernet	Chardonnay, Pinot Noir	Non-Bordeaux Proprietary Red Blend	Cabernet
SRP Range	$55-115	$20-25	$29-135	$32-38	$48	$40
Appellation	Anderson Valley	Sonoma County	Napa Valley	Russian River Valley	Napa Valley	Red Mtn., Washington

Image 7.2 Duckhorn family of brands and brand positioning.

second meaning of brand equity is literally the financial worth of a brand to the parent company. Building the first type of brand equity is what brand managers focus on. Brand equity is built when customers trust in the brand, feel they can predict or know what the wine will be like, and thus risk is reduced. People prefer to make decisions with as little effort as possible. The more they trust a brand to be one they will like, the easier and more quickly they can make a purchase decision and then focus on another task. Branding is a lot about helping customers be efficient, oddly enough. This can be done through powerful emotions that ideally create a feeling of affection almost akin to love. But in the end, this loyalty translates into the consumer not shopping around to do brand comparisons; by not engaging in comparisons, they are more efficient.

Brand managers in the traditional sense influence product features and attributes, structure brands and portfolios, and manage communication to markets in order to enhance brand equity and position products appropriately in the minds of customers. The more effective these efforts are, the greater the sales and market share a brand obtains, thus increasing financial worth of the brand to the parent company. Decisions in traditional brand management are numerous and span topics including brand names, logos, labels, trademarks, psychological research, target market identification and segmentation, pricing, and integrated marketing communications (IMC). All of the elements designed to communicate something about a wine brand or a winery must work together. Not only should they be consistent and complementary but they ought to integrate.

By integrate we mean that one can possibly lead to another. For example a print advertisement provides a link to the website, which offers a promotion code, which is accepted at certain retailers where the consumer will see similar visuals and messaging consistent with the print ad, website, and so on.

More on Wine Brand Positioning

Two common ways wine is positioned in the market, especially when dealing with international markets, ought to be discussed. Obviously, wines can be positioned on price and implied quality as in jug wines (high volume, lower priced, and not so common any more), table wines, mid-ranged wines, premium wines, and super premium wines. They are also commonly positioned by use occasion (e.g., gift, celebrations, barbeque, investment). The two we want to discuss next, though, deal with (a) perceived availability or "scarcity" and (b) location versus varietal.

Exclusivity versus Ubiquitous Availability: Perceived Scarcity

People want what they cannot have or what is difficult to obtain. This is true in products as well as relationships, it seems. Scarcity has been used as a means of generating excitement in consumer goods sales at retailers for years. When it comes to wine, clear distinctions can be seen in strategies. Some wineries prefer the idea of wide availability. Their objective is to grow the winery in terms of sales, and they seek to understand the price points at which the largest market will purchase the wine. It is well understood by these wineries that most wine is consumed within hours of its purchase. The markets for table wines are crowded with competitors, the products move quickly because they are consumed weekly and daily. Consumers become loyal to their favorite brands. In this environment, where widespread distribution and availability are sought, market share is gained only in part by quality, with price and a simple notion of "a good value" rising to most importance. Profits are made through volume on low margins. Brands are consistent. Managing these brands means positioning on ubiquitous availability. We can all list many wines that are available in any wine shop in our region or possibly even every wine shop in our nation. The large parent wine-and-spirits companies drive many of their brands toward this kind of positioning.

The opposing view is to position on exclusivity, or at least relative exclusivity. Here, brands are seen as special, unique, and worth hunting down. We will tell you another humorous story here about our team of authors. Two of us, Dan and Susan, engaged in friendly sports team bets regularly. Dan's teams were from New England, while Susan's were from Detroit, places where they each grew up. On one occasion, Dan had lost a bet, maybe a Boston Bruins hockey loss to the Detroit Redwings, we forget. The agreement was that the loser would buy the winner a bottle of whatever the winner wanted. Susan provided options but dreamed of an exclusively positioned wine, as you might suspect. She craved a 2003 Giuseppe Quintarelli Amarone della Valpolicella Classico DOCG from Veneto, Italy. In the United States, searching online it will be priced between US$250 and US$360 per bottle. It cannot be found by simply walking into a local wine shop. With our third author and teammate, Paola, living in Veneto, Dan knew he could get the bottle at a lower price in Italy through her. It turned out that Paola could not simply walk into a local wine shop and find it either, but eventually she did. It was still €180 (near US$200). She purchased it for Dan, who gave it to Susan, who was amazed he had gone through such efforts to obtain it. The product is positioned on exclusivity. Scarcity makes its price higher and the fun of hunting it down greater. The humorous part of the story is that Paola, living in the heart of wine country and owner of a vineyard herself, thought the price was insane. With so much absolutely great wine available everywhere at one-tenth or one-twentieth the price, paying that price was crazy. Again, it was only partially about the quality of the wine. For the record, Dan has learned to manage his friendly bets more carefully, and agrees with Paola that there are amazing wines at great prices everywhere, even if Amarone as a varietal is still challenging to find in some markets. Susan was so altruistic that she opened the bottle with her co-authors and other friends to toast the completion of this book! And the wine was really outstanding.

This brings us to positioning on location versus varietal.

Location versus Varietal

Wines can be positioned primarily on where they are from, on their varietal, or a combination of the two. What we see as common and seems to be well known in the industry is the straightforward view that New World markets primarily purchase wine based on its varietal. For example, wine is often categorized in wine shops by varietal; all of the Chardonnay is in one part of the store, distinct from the Sauvignon Blanc, Riesling, Pinot Gris, and so on. The Merlot is separate from the Cabernet Sauvignon, Shiraz, and Pinot Noir. This is in part because consumers look for the wines they want by varietal, and that is because wine brands are positioning on that attribute. When brands do this, the labels prominently display the type of wine on the bottle.

Contrast this with location positioning, which refers to wines positioned based on where they are from. The obvious example is wine highlighting its source nation—advertised as from Australia, Argentina, Chile, New Zealand, Italy, France, Germany, Spain, Slovenia, or the United States. However, location positioning becomes far more granular. For example, wines from Oregon have a persona that differs from California wines. Within California, Napa Valley wines can be seen differently from Sonoma County wines, which is slightly less than a two-hour drive away—this despite the majority of Americans thinking of the region as one Napa/Sonoma region. A snapshot of the number of wine regions by some countries is as follows:

- Italy (20 major wine regions, with many subregions)
- Germany (13 major wine regions, with many subregions)
- France (13 major wine regions, with many subregions)
- Australia (60 wine regions)
- New Zealand (11 wine regions)
- United States (4 regions/states account for nearly 95 percent)
- Slovenia (3 wine regions)

Wine is often positioned based on its origins within a country, and specifically a particular region. More refined is the well-known chateau location positioning in France or estate positioning elsewhere. However, location positioning goes even further. For example, Duckhorn Winery positions some of its brands as produced entirely from grapes of a specific vineyard they own (e.g., Three Palms Vineyard, Monitor Ledge Vineyard, Rector Creek Vineyard, Patzimaro Vineyard). Many wineries do this because grapes from specific and even relatively small parcels of land can vary widely from grapes grown on a vineyard only a few thousand meters away. These are known in the United States as Estate Wines, wines produced only from grapes from a single vineyard, and they always come with a higher price. Wine brands marketed as being from a specific plot within a specific vineyard is the ultimate in location positioning.

However, it can become more complex as we combine location and varietal if we look closely. In other countries, varietal positioning combined with location positioning is common and can include quality and wine-making process assessments. For example, in Italy, the appellation system emerged in 1963 and has grown to nearly half a dozen categories of wines. These designations are not limited to one varietal, so one can think of a matrix of varietal on one axis and appellation category on the other. These categories include:

- vini (generic wines),
- vini varietal (varietal wines),
- vini IGP (wines with protected geographic location),
- vini DOP (protected designation of origin) with two subcategories,
  - DOC (controlled designation of origin) and
  - DOCG (controlled and guaranteed designation of origin).
- To this can be added the legal terms of
  - Classico (wine produced in historically the oldest part of the protected territory),
  - Superiore (slightly higher alcohol content, higher quality), or
  - Riserva (wine aged for a minimum period of time depending on the varietal).

In France, there are numerous classification systems. For example, the well-known 1855 Classification applies to only about 60 different chateaux in and around the Medoc region. St. Emilion has its own classification system. Bordeaux wines classified based on quality and price fall into the categories of First Growth, Second Growth, Third Growth, Fourth Growth and Fifth Growth. Just in case you may not be aware, First Growth Bordeaux can easily be priced at US$1,000 per bottle and might come from one of the famous chateaux such as Chateau Latour, Chateau Margaux, Chateau Haut Brion, Chateau Lafite Rothschild, or Chateau Mouton Rothschild.

Germany's classification system, which has gone through changes in recent years, still retains a location and terroir indication. There are two general categories of wine: tafelwein (table wine, about 4 percent of total national volume, lower quality, mostly exported to the United States) and landwein (quality wine, with two subcategories, QbA and QmP). The subcategories of landwein translate to quality wine from a specific location/region and superior wine with specific attributes.

We could continue, but the point is that wine positioned on location and/or varietal is common, and to state that Americans purchase based on varietal and Europeans purchase based on location/terroir is a bit of an oversimplification. Contemporary marketers recognize the importance of connecting with their target markets. They understand the way consumers purchase as well as their willingness to understand or be curious about classification systems be they varietal, location, or quality-based. Therefore, marketers drive their wines to be positioned in certain ways in certain markets. Many retailers in the United States now classify their wines by all three. For example, many shops have a category for mid-to-low priced wines of all types and brands (price positioning), separate sections by country of origin (location), and separate sections by varietal (varietal), each with further subsections or shelf placement based on quality/price. This requires a bit of redundancy for wines appearing in two locations (e.g., in the New Zealand wine and Sauvignon Blanc categories); however it allows the shop to address the needs of two kinds of shoppers.

Brand Personality

Brand managers like to talk about brand personality. This term can be simplified to refer to a set of human characteristics associated with that brand.[3] For example, brands can have characteristics such as sincerity, excitement, competence, sophistication, peacefulness, or ruggedness[4] as just as a few possibilities. Wine brand personalities can be complex, elegant, fun, or playful. In order to create a personality, marketing materials, including labels but not limited to labels, must portray this personality. The identity of the brand ought to be complete, with its essence clearly communicated. Far too many small and medium-sized wineries seem to think this is a rather straightforward and easy task. It is anything but. Creating a personality, essence, or identity of a brand takes focused effort. To complicate matters, a brand's personality at the product level must be thought of in terms of how it will fit within a portfolio, with a winery's image, and with a region's.

Portfolio Management

Most wine producers sell more than one brand or type of wine. The collection of wines forms a portfolio. The product mix can be thought of as having product line width and depth. Product Line Width can refer to multiple levels within the portfolio. For example, each varietal is its own category and the more varietals offered, the wider the product line. Product Line Depth refers to different forms of wine within a category, so Estate Cabernet Sauvignon, non-estate, magnum-size bottles, 750ml bottles, and so on are examples of different forms for the same Cabernet Sauvignon category. The more forms, the deeper the product line. The combination of the two is referred to as Product Line Length.

A portfolio of wines with a high variety of types of wines (a wide product line) can also have numerous brand names on those different categories. For example, Moss Wood of Margaret River, Australia, brands its wines under eight different brands:

- Moss Wood
- Moss Wood Ribbon Vale
- Moss Wood Amy's
- Moss Wood Mornington Peninsula
- Moss Wood Lefroy Brook
- Moss Wood Palandri
- Moss Wood Green Valley
- Moss Wood Pemberton

Some of these brands represent only one varietal, such as Pinot Noir (Mornington Peninsula, Pemberton). While others (Moss Wood) represent five varietals (Chardonnay, Cabernet Sauvignon, Pinot Noir, Semillon, Port) with a few variations of those as well. The Moss Wood name appears on every label, at times appearing larger than the subbrand, and at other times smaller and less visible. Making decisions about what brands to add, possibly which ones to remove, and what variations of wine each brand will represent is referred to as portfolio management.

Many factors must be considered when managing portfolios, but the most important ones are the likelihood of cannibalization and the profit impact of changes. Firstly, cannibalization occurs when customers simply switch from purchasing one brand to a new brand from the same winery; the new brand is cannibalizing sales of the old one. The extent of cannibalization can be estimated when forecasting sales, and it should be because it always occurs at some level. Secondly, the costs of adding to a product line depth and width can be higher than the revenue increases thus reducing overall profitability. The basic decision criterion is that if there exists a market segment significantly underserved by your winery, and one that can be tapped without significant investment, it's worth a try. However, too many different products (known in consumer goods industries as stock keeping unit [SKU] proliferation) can be a burden on many systems, including the logistics one. Deciding which products to eliminate is referred to as SKU rationalization.

There is another issue to consider, though, and that is brand confusion. If distinctly different brands under the same parent brand umbrella communicate entirely different, even conflicting, identities, this could harm the overall image and sales of the winery. Launching a cool, trendy brand name with modern art on the label might be exciting in an attempt to reach an untapped wine-consumer segment. However, if all of the other brands and the parent winery have a traditional identity, not only will the new brand probably not cannibalize any of the existing brands, its very presence might send current consumers away from the traditional brands because they no longer trust the brand to stand for what they thought it did.

The management of multiple brand names and product types can be thought of as brand modifications.

Brand Modifications

Brand modifications appear as one of four types defined by two characteristics: product (current product type/new product type) and brand name (current brand name/new brand name). The four brand modifications are depicted in the well-known, now common knowledge figure (Figure 7.1).

Launching a new bottle size does not change the brand name or product type. These are known as Line Extensions. Launching a new product under an existing brand name is known as a Brand Extension. For example, if a

	New Products	Existing Products
New Brand	New Brand Strategy	Fighting/Flanker Brand Strategy
Existing Brand	Brand Extension Strategy	Line Extension Strategy

Figure 7.1 Brand modifications.

winery decided to add a dessert wine or even an olive oil under an existing brand name, this would be a brand extension. You want to make certain that the brand equity will transfer to the new product and help it, as opposed to the current brand equity being eroded because the new product does not seem to fit at all with the image that exists for the brand. A new product type launched under a new brand name is referred to as a New Brand. In this case, the risks of cannibalization and brand confusion are the lowest compared to the other three options, especially if the market does not associate the new brand with the parent one. It is also, however, the most expensive brand modification to execute. Finally, a product that is the same product type but under a new brand name is referred to as a number of names, but one is a Flanker Brand. This strategy is used usually when a brand's market share is being eroded by a specialty competitor brand, such as a craft-brewing company eating into a large beer company's market share like that of Anheuser-Busch InBev. It could be a high-end boutique winery eating into the market share of a much larger producer. The larger producer will launch a new brand name and position it as a high-quality, boutique wine to fight head-to-head with the competitor. In the wine industry, this approach is often executed by acquiring a small, boutique winery with an established brand name and feeding it financial resources.

The House of Brands

The final traditional brand management concept we discuss here is the idea of a House of Brands. A house of brands refers to a company that has numerous, separate, individually branded products in its portfolio. For example, Procter and Gamble owns the Tide, Bounty, and Gain brands, among hundreds of others. Frito-Lay, a snack-foods division of PepsiCo, owns Doritos, Lays, Tostitos, and SunChips, among many others. And Constellation Brands owns Robert Mondavi, Clos du Bois, and Kim Crawford. Most consumers of any of these brands are unaware of the parent company. These are houses of distinct brands, each one usually operating as its own business. They can be purchased and sold in the process of portfolio management.

The alternative is a Branded House. A branded house places the parent brand name on every product. For example, the Moss Wood wine brands that all contain the Moss Wood name is an example of a branded house; every brand carries the house name even if it has a subbrand name. Acorn Winery, a small family-owned sustainable winery in Sonoma County, has eight subbrands (Acorn Hill, Cabernet Franc, Dolcetto, Medley, Rosato, Sangiovese, Syrah, and Zinfandel), but every label prominently displays the Acorn parent company trademark.

Deciding which approach to take is a critical one. The correct decision depends on the winery's objectives and in particular on the nature and size of the winery's markets, the reputation of the parent winery, and how it will impact the success of subbrands, competitor strategies, and cost/resource constraints.

Wine Ratings and Reviews

Wine ratings and competitive awards can be viewed as an outcome assessment (we comment on them briefly in chapter fourteen), but they also can be tools for communicating brand equity. As we stated in the introduction, we are not covering standard, well-known aspects of wine marketing such as setting up and running a tasting room, advertising, or retail merchandizing in this book. We could say then that we do not need to cover wine ratings either. However, because so much effort traditionally goes into entering and winning contests as well as paying attention to ratings, we thought we should cover it here.

Wine ratings supposedly offer an assessment of the quality and style of a wine as determined by an independent judge or panel of judges. There are several well-known rating systems in the United States and internationally. Specifically, Robert Parker's rating through his newsletter, *The Wine Advocate*, as well as *Wine Spectator* and *Wine Enthusiast*, each provide well-followed ratings. Robert Parker's system is available online at his website.[5] He makes a point to state that although he has a tough rating system that ranges from 50 to 100, his tasting notes are where he states his detailed opinions. Extraordinary wines will be given a score between 96 and 100 and outstanding ones between 90 and 95. Robert Parker has a team of approximately ten wine critics and reviewers. *Wine Spectator* and *Wine Enthusiast* use panels as well and a rating system that runs from 80 to 100. Most of these sources also have lists of favorites, wines of the day, yearly top-100 lists, buying guides, interesting stories on regions and wineries, and so on. They serve the purpose of making wine accessible to consumers. Scores are usually within a wine's variety category. Being rated well by one or more of these systems is extremely helpful to sales because the scores act as an indicator for quality and value for one's money. For exploratory consumers, the rating systems help make them aware of wines they might not otherwise find.

Rating systems fall within a broader category of public relations (PR), which can be consumer- or trade-focused press coverage. Wineries that wish to obtain some form of coverage, and especially a rating, will provide press kits to these and other sources in hopes that their wines will be covered. Sometimes editors will reach out to particular wineries within regions. Obviously, wineries that have wines with high ratings will leverage these scores along with tasting notes on websites, promotional materials, and shelf tags at retail locations. And that is the point here: rating scores are used to enhance and communicate brand equity. They become, in some ways, part of the brand's identity.

A Few More Examples

Misty Morning (pseudonym) a high-end boutique winery in Napa, California, sells wine currently priced between US$55 and US$110 for reds; the rose and Sauvignon Blanc are between US$20 and US$30.

Our marketing contact there was classically trained in brand management, having worked at much larger wineries with large marketing departments. He was a master at finding the essence of his brands and the wineries that produced them, then remaining authentic to those identities in how he marketed them. It was important for Misty Morning Winery to remain true to the ideas of estate-only wines—wines produced only from grapes grown on their own vineyard—to maintain high quality and refrain from mass-marketing appeals that would drive demand up and require them to purchase grapes to meet volume commitments. He would rather raise prices to manage demand than alter the volume produced. What the vineyards could naturally produce is all there would be, and no more.

Everything works together to create a consistent brand image. The glass used for high-end wines is thick, heavy, and classically elegant. Unique celebratory brands have unique bottles and an embossed logo, a nonstandard rounded-edge base, and an interesting neck. The glass bottles are expensive. The labels are silver, simple, understated yet elegant. The website is easy to follow, simple but complete, and also elegant. It emphasizes the winery's history and its 100-percent-organic nature. The wine club is a key source of maintaining connections with loyal customers. The winery understands who they are, what they stand for, and how to assemble all of their communications to be consistent and authentic.

There is also a nice, internationally distributed, special organic wine out of Slovenia known as Kabaj (pronounced Ka-bye), distributed through Blue Danube Wine. The French enologist proprietor, who met his Slovenian wife while he was working in Italy, spent many hours with us not only describing his wines, small restaurant, and inn, but his brand identity as well. Kabaj connects with the local soil and culture though its wines, food, and hospitality, where "ancient techniques" are combined with "modern know-how." He is passionate about his wine and winery. Kabaj wines are 100 percent Ribolla grapes, hand harvested and organically grown. The Kabaj brandmark is modern and works well with the simple personalized-looking signature script used elsewhere. It is unpretentious in its appearance, as are the winery and its owners. Part of their identity is their personal connection and customized offerings. For example, when we visited, they were packing a shipment of custom-printed wooden-boxed bottles for an important Japanese customer. On each box was a piece of metal art displaying various black silhouette figures. One authentic aspect of the winery is that although it was founded in 1993, one of their interesting labels, Amfora, is stored in amphoras (ceramic containers) just as it was eight thousand years ago in ancient Georgia—considered by some to be an origin of wine production. This process has become popular in the region, but it is truly an ancient tradition. Studying and relying on traditions like this are key aspects of what Kabaj stands for.

As a final example, we present Tohu Winery of New Zealand, which produces award-winning wines, but is probably best characterized by its New Zealand branding. From its start just under 20 years ago, it had been quintessentially connected to New Zealand heritage. The winery still promotes that it was one of the only Maori-owned wineries when it opened. The Maori are the indigenous natives of New Zealand. Tohu likes to be known as having a strong spiritual connection to the land and culture, including guardianship of natural resources. The winery is a way for them to promote Maori culture as well as be a part of it. Their website specifically discusses their branding strategy, as did the managers with whom we met.[6] They showcase beautiful traditional Maori art as well as the stunning landscapes of New Zealand. For example, their logo is the koru, a spiral symbol of growth, life, and the natural world. This spiral logo represents the journey of the winery. The imagery on the labels depicts the land around the vineyards, and the handwritten script is in the traditional language.

The entire brand identity is about this Maori connection and connections to the land. Connections to the land emerge in their diverse sustainability initiatives. That said, behind the scenes are very savvy business people and marketers in particular. Their wines are of quality, having won numerous awards and had numerous articles written about them over the years. Their Sauvignon Blanc, Riesling, and Chardonnay wines run from US$12 to US$27. Their labels look modern, clean, and artistic. Managers we met had strong marketing backgrounds and had worked at large companies such as Constellation Brands. They sell internationally through approximately 20 distributors around the world in about the same number of countries. Around the world, their brand story and identity is the same.

Schloss Johannisberg is one of the oldest winery estates in Germany at twelve hundred years old. Its history, like all old wine-producing castles in the Old World, includes economic ups and downs, and the "recent" wine era of the last 240 years has a fair number within it. But some of the best

Image 7.3 Tohu wine label with koru logo.

Rieslings come from this area and this estate. Their wines are internationally known and have won numerous awards. Their bottles carry the VDP neck sleeve to indicate a superior quality. But the director with whom we met can't rest on the old reputation or quality indicators. Brand management for him is not about many of the concepts we discussed here, but more about selling, attending, and running events—from large ones with master chefs and many winemakers to small ones and trade fairs. The quality is high and the reputation solid, but he sees his main job as to keep it that way: "The main goal is to keep up the quality and keep up the reputation." Sometimes the major marketing work of the day is to figure out how to stay on top once you are there. It's a never-ending task and one, he indicated, that may require them to return to some classic marketing and advertising techniques. The competition gets tougher every year. For now, the wines are elegant, beautiful, and amazing like the castle, and those wines are still winning awards.

Summary

In this chapter we covered the traditional fundamentals of branding, concepts critical to wine marketing. The concepts of Brand Architecture, Equity, Personality, and Positioning apply to any consumer goods product, including wine. However, we spent time describing scarcity, varietal, location, and classification systems specifically in the wine industry. And portfolio management and brand modification concepts were used with several wine product offerings. This chapter was a way to set the stage for the contemporary approaches to brand management that we address in chapter ten. Those ideas are cool, but without the foundation, they would not be applied effectively. Before we cover contemporary approaches to brand management, we return to the supply chain topic with supply chain design (chapter eight) and market research (chapter nine).

CHAPTER 8

Supply Chain Design

Case Vignette: Australia Wine Group, Australia [pseudonym]

Australia Wine Group is a collection of wine companies that has grown organically over the past couple of decades. Wanting to create a family business, the founder acquired four iconic wineries in different regions in Australia over a ten-year period. Many of their grapes are estate grown, although they do purchase 40 percent from other growers to provide stability in vintage variation. Due to the high cost and complexity of shipping to other countries, they opened their own distribution center in eastern Australia to take advantage of shipping large quantities to other countries. This facility added bottling equipment in addition to state-of-the-art storage capabilities, and they now offer bottling and logistics services to other companies as well. Another complexity they faced with respect to shipping to other countries was import regulations; therefore they opened importing offices in the United States to manage imports through New York and California, and a joint venture to handle imports to China. They also employ independent distributors in Australia and the UK to manage relationships with sales outlets. Retail/restaurant sales outlets seem to be the only pieces of the supply chain that are not part of Australia Wine Group.

"We've found, and this is part of what I was meaning about having economy of scale, to be able to operate the way we want to operate. We now have enough volume and a big enough organization to be able to employ people in these markets . . . so there's that level of quality control of bottling or packing containers or packing trucks or whatever. At our stage we're not relying on someone else to get it right anymore because we've seen people get that wrong all the time" (CEO of Australia Wine Group).

Australia Wine Group has primarily designed their supply chain to be vertically integrated (i.e., they own many of the players in their supply chain). They made this decision in order to control more of the different processes that need to occur. This sort of control often allows a company to save a great deal of cost and sometimes increase revenues. However, it does require additional investments in facilities, people, and management expertise. Vertical integration is one of four possible supply chain designs that will be discussed in this chapter following a look at the different players and the functions and relationships among them.

Designing a Supply Chain

What does it mean to "design" a supply chain? A general definition says design means to decide on the look and function of something. That is exactly what designing a supply chain is—deciding on the look (the players or companies involved) and functioning (functions and relationships between the players) of the chain. Think of it as constructing a dream sports team. First you determine who you want on the team, and then you determine the game plan. This chapter explains how a wine producer, the "captain" of the team (supply chain), chooses who else is on the team. Then the players decide on individual roles, interactions, and game strategies (supply chain functioning and structure).

Players in the Wine Supply Chain

Who are the players in the wine supply chain? Let's begin with the basics. Figure 8.1 provides a visual overview of the wine supply chain. It begins with grape growers. The grapes are then made into wine by a producer or winery. Other suppliers provide various materials to the growers, and supply packaging, equipment, and services to the producer. If being sold in a different country from the one in which it is produced, it may be handled by importers and/or exporters. From there, the wine is generally handled by a wholesale distributor to represent the brand to sales outlets. Each of these players will

Figure 8.1 The wine supply chain.

be discussed in more detail. However, this basic structure can become a bit complex as the number of players increases. For example, some of our study participants ran organizations that managed many vineyards, dealt with over 40 distributors, and cultivated relationships for understanding and accessing 30 countries and dealing with all of the variance in regulations for distributing into those markets. The game can become quite busy, requiring many trade-offs as one designs a distribution network.

Growers

Growers may be independent growers who own a vineyard and grow and harvest their grapes to sell to one or more producers. Growers may also be producers where grapes are grown, harvested, and made into wine by the same person or entity. This is often referred to as being "estate grown"—made from grapes grown on the winery estate/property.

Producers

Producers process grapes, their own and/or purchased, into wine. Most of our participants were producers; all but one of our winery contacts managed their own vineyards, and some purchased additional volume. One purchased 100 percent of the fruit because his specialty was winemaking/production. In a nutshell, the production process includes pressing the grapes, fermentation, filtering, storage, and bottling. Figure 8.2 provides a simplified process

Image 8.1 Moss Wood—hand-picking grapes.

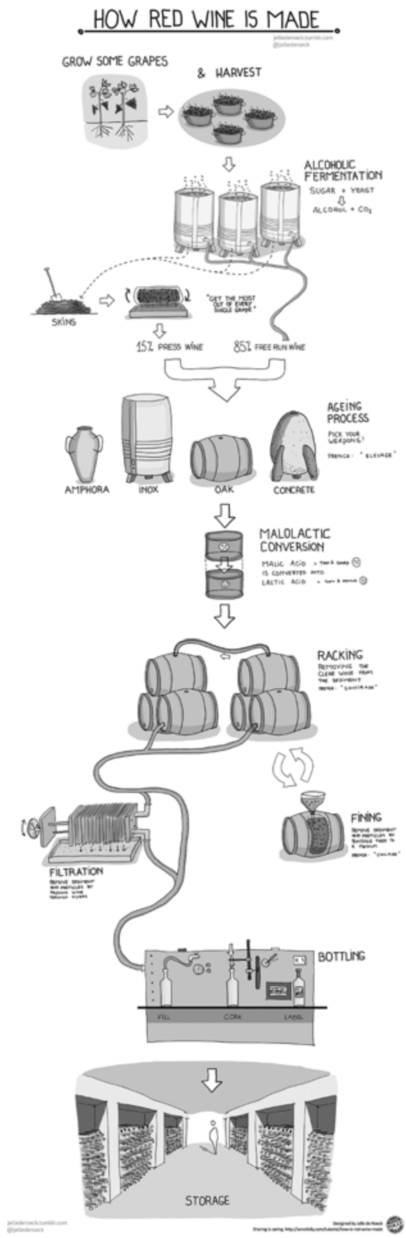


Figure 8.2 How red wine is made. (designed by Jelle de Roeck for Winefolly)

diagram for making red wine. They then package the wine for sale. Any part of the production process can be done in house or be outsourced.

A négotiant is a form of outsourced producer, most popular in France. These "wine merchants" obtain grapes or wine in various states of completion from small producers and sell the resulting wine under their own name. They often take over the process following bottling and thus are referred to as merchants. Most merchants both produce and take over bottled and labeled wine to handle the distribution.

Other Suppliers

Growers and producers may both have a variety of suppliers for the materials and equipment they need. For example, growers need machinery for the vineyards, such as tractors, sprayers, and harvesters. Because grapes are an agricultural product, growers may also need chemicals and fertilizers for the vines. Producers must purchase equipment for the wine-making process, such as grape presses, fermentation tanks, wine filters, hoses and pumps, stainless steel tanks and/or oak barrels, and bottling machines. They also need to regularly obtain materials for the process, such as yeast, water, additives if used, bottles, labels, bottle closures, and boxes.

For those in the wine business, the information to this point is rather straightforward, but we provide it to make an important point. Supply chain design must cover all aspects of the structure of relationships between organizations and the network flow among them, from raw materials through to any organization that provides time and place utility for consumers. Omitting any small detail, no matter how obvious it may seem, can dramatically alter the production flow required to serve demand.

Importers/Exporters

Importers and exporters are middlemen, like wholesale distributors, that provide services for the sale of the wine. If exporting from the country in which the wine is produced, an exporter familiar with the export laws of the home country might be used. Likewise, an importer familiar with the import laws of the destination country may be used. Producers could choose to do these functions themselves, but they would need to understand and follow all of the regulatory requirements in order to sell their product. Companies that specialize in importing and/or exporting wine know the wine regulations in different countries and can therefore make the import/export process much easier and faster.

Wholesale Distributors

Also called simply wholesalers or distributors, wholesale distributors are used to (1) fulfill regulatory requirements, and (2) provide access to sales outlets. Some countries, like the United States, have laws in place as to how alcoholic beverages can be sold to consumers. In the United States, it is required that alcohol sales go through a three-tier system. This system requires that producers sell to licensed distributors who then sell to off-premise outlets who then sell to consumers. It was put into place in 1933 following the repeal of Prohibition. Although some states have passed different structures, this system is largely still a reality throughout the country (Federal Trade Commission).[1] That said, one large retailer in the United States, Total Wine, was discussed by numerous European participants of our study as making the distribution system into the United States a bit simpler for producers because they serve as one entry point for access to a number of states.

Wholesale distributors are also used by producers to access sales outlets such as retailers or restaurants. Many producers in the wine industry are small and have limited resources to reach very many sales outlets, particularly those outside of their geographic region.

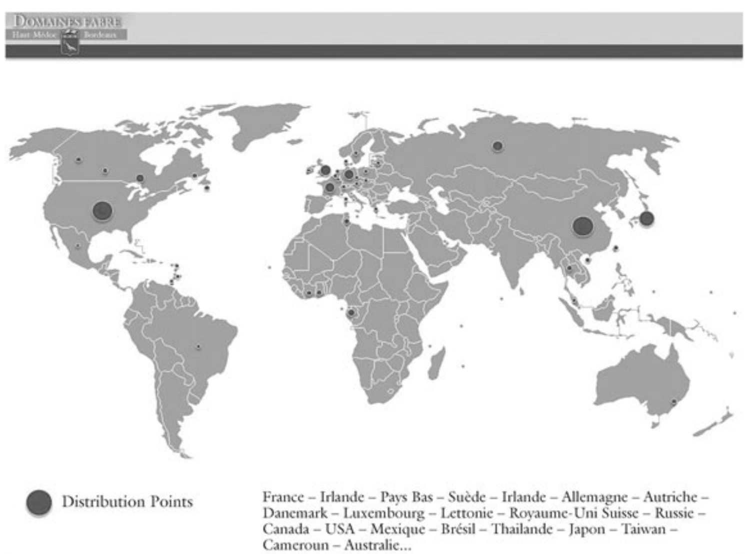


Image 8.2 Domaines Fabre distribution points.

Sales Outlets

Sales outlets include retailers, restaurants/bars, Internet wine merchants, or wineries. Retailers, which can consist of liquor stores, package stores, wine shops, grocery stores, or convenience stores depending on a state's liquor laws, are known as off-premise outlets. Off-premise means that the wine is purchased and then consumed off of the premise or location. Another off-premise outlet is an Internet wine merchant that purchases wine from producers and sells it through a website. A restaurant/bar is an on-premise outlet, which means the wine is purchased and consumed on the premises. The primary role of these types of sales outlets is to provide consumers wide access to various wines.

Wineries may sell wine directly to consumers if they want to manage their own direct sales and are allowed by local regulations to do so. They can do this from their tasting room/cellar door if they have one or online through their website. When sales occur online, whether through a merchant or directly from a winery, there are often quantity and location regulations that must be followed.

Consumers

Consumers are individuals who purchase wine for gifts or their own consumption. They can purchase wine from any of the sales outlets mentioned above. Chapter one highlighted overall consumption rates by country. Demographic data supports that the consumption of wine is increasing across all segments of consumers, although during the past few years of recession, this growth has been constrained to lower price segments.[2] Fifty-seven percent of US consumers in a recent survey reported targeting the US$8 to US$15 price range when purchasing a bottle of wine,[3] which for the United States is a lower price segment. In Europe, this lower price segment would be represented by €1.50 to €3.00. Consumers are also learning more about the product, making them more challenging to serve.[4] These factors make design and management of the supply chain that much more important.

Now that we have an understanding of the players, let's take a look at their roles and interactions.

Supply Chain Functions and Relationships

The primary functions of a supply chain revolve around production of the product by the focal firm (e.g., a winery). There are many books that cover aspects of wine production; as we are focused on marketing and supply chain management, this will not be discussed here. Sourcing is another major function. Materials must be sourced (purchased) from suppliers upstream of the focal firm. Distribution is the third function, where the product flows downstream to levels of customers. Within the wine supply chain, the functions themselves use fairly basic business processes; however, the important piece to the design of the supply chain is the relationships that are formed with the other parties. As a sales and marketing director for a winery in Australia said, "The industry is very much about relationships more so than other industries as I understand."

Sourcing and Suppliers

Sourcing or purchasing is the acquisition of needed materials (e.g., grapes), equipment (e.g., a fermentation tank), and services (e.g., transport to a distributor). This is important to be able to deliver a quality output to customers. The basic process is to (1) determine what is needed, (2) determine potential suppliers for each need, (3) select and negotiate with the supplier based on important criteria (e.g., cost, quality, location, delivery), and (4) develop a contract and/or release purchase orders for the supply. Larger companies may have someone in a formal buying position. Smaller companies will have people doing multiple business functions with buying being one of them. It is up to each company whether to purchase each supply from a single supplier; this is easier to manage and will often result in lower costs due to higher purchase dollars going to one supplier. Some may choose to purchase supplies from multiple suppliers to diversify risk. Larger companies, particularly those owned by large, international beverage companies, may have an annual strategy around how they purchase supplies. For example, a supply manager for one such producer in Australia explained, "We've moved to a supply strategy that has effectively hit our target of 25% of our contract grower supply coming off every year. So that gives us some flexibility. And then another 10% of that we target spot-purchase buying of grapes or potentially juice."

In this industry, some of the strongest and longest relationships among supply chain parties are those between producers and growers. The fruit supply is of the utmost importance for the product, so this is no surprise. Numerous producers in our research mentioned growers that they used consistently for 10, 20, and even 30 years. These relationships are very committed, and often producers referred to their growers as an extension of their business or even part of the family. One CEO of an Australian producer provided the example of how they cultivated their relationships: "Where the big guys [other producers] go to the growers saying [wine producer] is going to pay $1500/ton so we'll give you $2000. And what we hope that they'll do is in those tough times when you said you'd pay us $1000, [wine producer] paid us $1500 then, we're going to stick with [wine producer] because during the down times they paid us a fair price—they've always paid us a fair price. So yeah, we've got a very strong relationship with them [growers]."

Many of these relationships are strong because they began through personal connections and have developed over time through continued trust. Many still refer to handshake deals rather than contracts, the industry norm. Contracts require legal services, which many small operations simply cannot afford. When talking about their grape suppliers, the general manager of a producer in California said, "Put it like this, it's about relationships, and the perfect example is our most valued vineyard—one called [vineyard]. It's just up the road here. He only sells his grapes to two or three people. He could get . . . I don't even want to guess what he'd get for a ton of his grapes if he went and asked for it. This year [2010] it's tough . . . I don't know but $6,000–$7,000 . . . who knows, craziness, and we've had a handshake deal with him since [winery founder] started."

Not all producers operate in this manner. Some do rely on contracts with suppliers, and some have short-term transactional relationships. Short-term relationships can be very effective when low cost is the primary goal, and the supply need is not as important for the product (e.g., case boxes). However, short-term relationships require more frequent renegotiation, and some producers do not have the manpower for this. Hence larger companies tend to be the ones that have sourcing strategies, keeping some relationships shorter termed and transactional, and using contracts.

Distribution and Customers

Distribution is the delivery of finished product downstream through tiers of customers, such as importers/exporters, wholesale distributors, and retailers, to the final consumer. As mentioned earlier, in the wine industry, the number of tiers depends on the regulations of the country in which the product is sold. Each level of player must represent the brand and sell the product to their customer. The relationships in this direction are generally not as close as those with upstream suppliers can be. One of the reasons is that distributors are usually larger than the producers and have more power in their markets than the producer has with the distributor. Distributors often represent hundreds (and larger ones thousands) of brands; so the producer's products could be a very small percentage of the distributor's sales. The result is often that the distributor does not put much effort into selling the producer's product and might not do a good job representing the brand. Both of these situations can hurt sales in the market. In order to combat this, some producers will negotiate exclusive agreements where the producer sells through only one distributor in a market, essentially removing any competition for the distributor. A marketing manager for an Australian wine producer noted, "We like to have an exclusive arrangement. We like to and the distributor likes to have an exclusive arrangement otherwise it dilutes the market." An arrangement such as this allows the producer to have a little more power with the distributor in the relationships, particularly if they have a desired brand as the founder of a Washington producer explained: "And you know as much as I appreciate the relationship we've built with some of these smaller distributors, they have to appreciate if they can't grow our business beyond a certain point then we have to look for alternatives."

Another downstream relationship is a joint venture, where the producer and another company (typically an importer or distributor) invest in a third, joint company. This is particularly effective for selling in other countries. As an example, a producer in Australia formed a joint venture with a Chinese importer to sell wine in China, and a producer in Italy formed a joint venture with a US importer to sell in the United States. Anytime there are layers of distribution, these middlemen each take a margin from the ultimate sales price, and the more layers, the less money the producer makes, or if possible, the higher the retail price rises. Therefore, many small producers choose to only sell directly to consumers who visit their tasting room or cellar door. This limits the total volume a producer can sell, but maximizes the profit, as described by the founder of a small Australian producer: "Squeezing out middlemen and squeezing the margins back. We can produce and offer to the consumer I believe a better quality product at a lower price because there is not any middleman."

Relationships with the retail level (i.e., shops and restaurants) range from nonexistent to close, depending on whether the producer works through an importer/exporter, wholesale distributor, or merchant, or chooses to sell directly to these businesses. Producers tend to work directly with the retail level in their own geographic markets, as their own backyard is easy to manage. When selling to foreign markets, it is more efficient to let a middleman work those relationships; trying to deal with twenty to hundreds of international outlets for some producers would be a nightmare. It may also be easier for retailers to deal with distributors because there are fewer relationships to manage than if they dealt directly with producers. However, they must then decide what is really important from these relationships. A restaurant owner and chef explained this when he said, "But wine companies don't like to see us dealing direct with their clients, their principals [distributors]. It takes business away from them, and we're in a position to not tread on their toes. We want to do it the right way because relationships with wine companies are critical to the success of our business because they are our partners in this business."

It is much more common on the downstream side to have contracts to govern the relationships. Because distributors and retailers deal with so many different producers, contracts are necessary to capture pricing and delivery information, and frankly, to ensure the producer is paid for their product. The only exception to this would be if a producer were to work with an individual who was an independent distributor; this individual may be chosen to represent the brand and may even have a personal relationship with the producer. Therefore, a contract might not seem necessary.

We have discussed the players and their roles and interactions. We will now consider some supply chain designs and what they look like in the wine industry.

Various Supply Chain Designs

There are four basic supply chain designs that a wine producer could consider. Once a supply chain is designed, it can still change if it is determined at any point that it isn't working. The focal firm can change how they operate at any time if they feel a new design is worth the investment in time, relationships, and possibly money. Each of the four designs is considered along with examples.

Standard Design

A standard supply chain design is one where the different players are different companies. Each company specializes in the specific role that they play, or their core competency—for example, the grower concentrates on growing grapes, and the producer only produces wine. Standard designs are the most common in any industry. This way, the focal firm can find suppliers and customers who are each experts in what they do, which can result in a higher quality output from each party. Large producers in particular use standard designs since they produce a great deal more product; hence they need larger volumes of fruit and sell more wine through more markets.

Vertical Integration

As mentioned earlier in the chapter, vertical integration is when the focal firm owns or controls many of the players up and down their supply chain. They are essentially integrating all of the processes that need to occur to make and sell wine under one company. Again, this provides more control over the processes and the brand image as well as higher profit margins, but requires a great deal of expertise to manage and integrate all of the different processes needed. It may also require larger initial investments in vineyards and facilities. Therefore, it is important for the producer to consider all factors and not just the possibility of increased margins as the initial investments and expertise required could outweigh the benefits of the higher margin. While controlling the distribution and selling directly to consumers seems attractive, few producers choose to do it all—if they are smaller companies, it can be too much to manage.

One small producer in Washington, however, has slowly evolved from a standard design to a vertically integrated supply chain. They have owned their own vineyards and produced primarily from their own fruit, but initially bought supplemental fruit from other growers and used wholesale distributors for selling their wine. However, they have recently acquired more vineyards in order to rely on their own grapes and are selling much more of their wine directly to retailers and consumers. The owner/founder, a former business professional, made these decisions because he saw the business as an extension of his family—he is the fourth generation of farmers to live in the area. When asked why he wanted to be vertically integrated, he responded that he didn't like having partners, because he didn't want there to be a difference of opinion on the brand and how it was positioned in the market. He explained, "I wanted to be completely vertically integrated for [winery], and I wanted to be the one to do it. I wanted to be the face in the community—my wife and I. I wanted to grow, so I had total control over the fruit. I wanted to sell as much as I could from this property—capture the retail sales. And I also wanted to brand the experience that came with it. So for me it's more than just selling a bottle of wine. It's more about selling the experience that goes in with that."

Outsourcing

Outsourcing is used when a player in the wine industry does not want to manage one or more of the grape-growing, wine-making, or distribution processes. The player contracts with a company whose sole purpose is to perform that process; hence they are experts in that process. As an example, using a bottling company to bottle the wine is a form of outsourcing; the player does not have the expertise or equipment to do this, and they therefore must hire another company to manage it. The player does this because it is not their core competency, and it would likely cost them more time and money to try to do it themselves. This is different than a standard supply chain design because the player is still responsible for the role they play (e.g., producing wine), but one or more of the processes (e.g., bottling) is managed by another company (e.g., a bottling company).

There are several opportunities for outsourcing in the wine supply chain. Because outsourcing is specific to a process conducted for one of the players, and these processes occur on an annual basis in the wine industry, the arrangement is generally governed by annual contracts. This does not necessarily mean that the relationships are not close; they are simply revisited each year. As one contract winemaker noted, "So each client, even those you've had for a while, it's season to season." A manager with another outsourcing company echoed, "So it's year to year. So every year we hope that our clients all re-up with us, and for the most part they do but not always."

Outsourcing is often a business opportunity for experts in certain areas. For example, it is becoming more popular for reputable winemakers to become contract winemakers—they do not make their own wine but do so for other brands. They have their own facilities and take the fruit supplied by the client and simply produce the product. Another example is a contract viticulture company whose services consist of managing vineyards and any part of the grape-growing and harvesting process. One wine group in California has a strong distribution network and is adept with import requirements in the United States; therefore, they have become a contract importer and distributor for select non-US wine brands. The most extreme case of outsourcing would be outsourcing all processes, or operating a virtual supply chain, which is explained next.

Virtual

When all processes except managing the product brand itself are outsourced, the supply chain is considered to be virtual. That is, the focal firm controls the brand for the wine but uses other companies to manage many or all other processes (think Nike). For example, one Australian producer purchases grapes and has them made into wine at a contract winemaker and then sold through wholesale distributors. The only things he manages are the marketing and brand-image aspects. Again, as noted in the outsourcing section, all of the arrangements have contracts that are typically annual. As one producer explained, "I'm loyal for the best service for the best product and the best price and if anything drops off there and starts to worry me yeah I'm going to look around."

Summary

This chapter introduced the players in the wine supply chain—growers and other suppliers, producers, importers/exporters, wholesale distributors, sales outlets, and consumers. The roles and relationships among these players in sourcing, producing, and distributing the product were presented. The four primary supply chain designs—standard, vertical integration, outsourcing, and virtual—were explained with examples from the industry.

CHAPTER 9

Market Research

Case Vignette: Duckhorn, United States

How do wineries learn about their markets and customers? The answer is through market research. Or at least that is what the answer ought to be. Even informal observation of customers at a wine cellar can serve as part of market research. Unfortunately, for many wineries this is the extent of their entire market research effort, and hardly any data are documented. It resides in senior leaders' minds alone and is passed on verbally. This may be because wineries are essentially refined and highly specialized farms and product producers. Winery owners and winemakers are often highly trained in viticulture but much less so in marketing and sales. Or it could be simply because of the size of the winery and its niche focus.

Duckhorn knows marketing and market research well. The marketing manager has a background in marketing and public relations. He spends time understanding and connecting with both consumers and the trade. He has been involved in and helped organize and run regional wine tastings and many other events that connect to consumers and trade customers. One way he conducts research is through direct involvement that helps him keep his finger on the pulse of market trends and desires. David has held numerous market roles at Duckhorn, and through him and others, Duckhorn has developed wine clubs and e-commerce sites, both of which provide data for them to analyze. They communicate with over twenty-five thousand people through email and have about seventy thousand names in their database. Connecting attitudinal, behavioral, and demographic data on these people enables them to segment customers and target communications to the groups the way they want and in ways relevant to those audiences. The lesson here is to collect data wherever it comes in, and then analyze it to see what it tells you about sales and preferences.

Duckhorn's market knowledge is what drove development of their portfolio of brands. They constantly think about how brands in their portfolio connect with specific markets and try to make decisions that are consistent with the image that a market would expect. They carry lower-end (relatively speaking) wines that are nice blends but do not fit the more luxury wines and could even be bulk wines, such as Decoy. But they also produce and market Duckhorn, Goldeneye, and Migration labels, each from different plots and subregions near Napa/Sonoma and each targeting specific markets based on their research.

How can wineries most formally identify market opportunities?

Understanding Markets through Research

The only way to truly understand markets and be able to interact effectively with them is through research. For some, the word research is daunting, but it does not need to be. It is odd at times for us to speak with winery managers who spend so much time researching viticulture as a science yet who do not put as much effort into understanding the markets to which they wish to sell.

There are at least two reasons to conduct or pay for market research. One is to be able to visualize and create segments and clusters. The second is to understand what those segments value. For either purpose, a fair amount of secondary data is already available, conducted by industry associations, consortia, or research firms. Some of this will appear in articles or even blogs and are essentially freely available. Other, deeper insights must be purchased. Finally, many wineries conduct their own primary research. The more critical

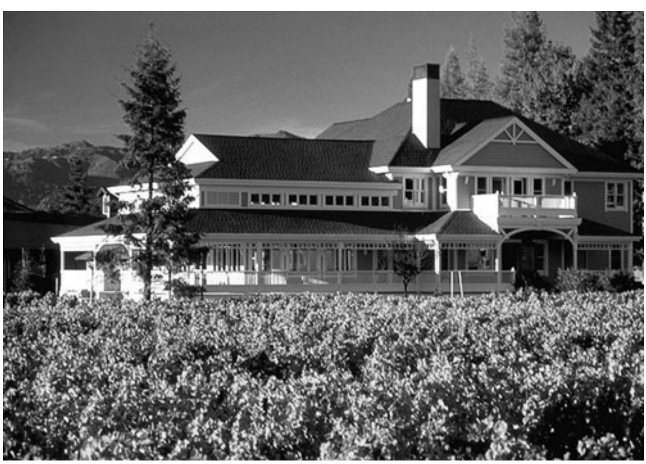


Image 9.1 Duckhorn Winery estate house.

it is to understand deeply and precisely one's markets and what market segments value, the more time and financial resources are usually expended. For example, larger wineries such as Kim Crawford of New Zealand, Frescobaldi of Italy, or even high-end but smaller wineries such as Duckhorn of the United States will not leave their business up to chance in hopes that consumers who like their wines will simply find them. They conduct and purchase research in order to precisely understand how to use their resources and what messages to convey to their markets.

What Information to Seek

When conducting research, one way to think about the task is as part of a market-opportunity analysis. A market-opportunity analysis usually includes developing insights to

- the macroenvironment,
- overall potential market segments,
- end-use customers,
- channel customers (distributors, retailers, importers),
- suppliers (growers, bottlers, equipment), and
- competitors.

These insights help managers develop forecasts for the sales within those markets. Studying the macroenvironment is especially important for international sales. It is critical to understand details such as gross domestic product (GDP), GDP growth rates, and the amount of discretionary income that exists in each market—wine is often seen as a luxury good whose consumption declines in tough economic times. Even if consumption does not decline, usually many consumers lower their price tolerance and select less expensive wines. This could obviously be good for some wines and bad for others. Additionally, wineries are concerned with regulation. Wine and liquor regulations clearly differ from country to country. In China, these regulations may change quite rapidly without much warning. In the United States, the three-tiered system (four, actually, when discussing imports) including producers, (importers), distributors, and retailers, makes accessing consumers directly a bit challenging for wineries, to say the least. Add to that the fact that each of the 50 states in the United States has its own unique regulations and tax structure, and the importance of understanding the macroeconomic and administrative issues becomes immediately apparent.

Beyond economic and administrative issues are issues related to culture and geography. Culture clearly has an effect on wine markets. From a consumption perspective, wine is deeply embedded in the Italian and French cultures. Grapes are a ubiquitous crop there. This does not necessarily mean that consumers in Italy or France are more sophisticated than wine enthusiasts elsewhere in terms of global understanding of wine varietals and vintages; however, wine is part of their daily life, and local knowledge is significant. It also means that prices are relatively low. When a region possesses small wineries in almost every village, it is quite easy to drink local, high-quality wine without paying too much. Therefore, any wines attempting to compete in those markets, especially imports, must leverage some other attribute beyond quality to gain consumers' interests. In fact, everywhere we have been, high quality seems to be the main product attribute every single winery claims. When this occurs within a product category, quality no longer can be used as a means for differentiation. Even Germany, where wine quality had some problems over the recent years, now prides itself on the high-quality wines produced "across the board by almost every serious winery."

But culture means more than simply a nation where wine is well understood. In the wine industry, even the concept of terroir, which usually refers to geography, soil quality, and so on, includes an aspect of the effects of the regional culture on that geography. But culture for our marketing purposes refers to the habits, norms of behavior, and attitudes toward wine consumption. These are aspects of broader cultural dimensions. For example, some cultures are more relational or more collectivist, those two not being identical, while others are more individualistic. These characteristics have an impact on use occasions for wine. In some cultures, wine is consumed primarily in social settings, while in others it is common to drink wine at home alone or with one other person. It is important to understand where wine fits within the context of the culture to which a winery is trying to export. Once understood at the national level, it is important to understand any subcultures or microcultures, meaning smaller segments of consumers.

Following the macrolevel overview, wine marketers typically attempt to understand as much as they can about end users and channel customers. End users are consumers and/or purchasers of wine, while channel customers are retailers, restaurants, and in some cases even distributors and importers. Marketers must understand what each of these customers values in order to communicate with them and create products and services that best deliver on their needs. Marketers attempt to develop this understanding through both qualitative and quantitative methods. The two approaches are complementary. Qualitative methods help to build frameworks and deep understanding, while quantitative methods help to test those frameworks and the hypotheses they imply.

Both quantitative and qualitative methods can and should be used when trying to determine what customers value, how satisfied they are, and so on. We discuss both next. However, there are many great sources for learning how to conduct this form of research well if you find yourself wanting to learn more. One of the very best, even if published in 1996, is Woodruff and Gardial's book, *Know Your Customer*.[1]

Qualitative Methods for Understanding Markets

It may seem that there are as many reasons that consumers enjoy wine as there are consumers, and trying to please all of them would be futile. Therefore, if a winery simply focuses on producing the "best" wine they can, customers who like it will buy it. Or one could conclude that consumers care about the "quality" of the wine within a category within a certain price range. The winery could then simply emphasize quality at a given price and attempt to receive a good rating from *Wine Spectator*, *Wine Enthusiast*, or Robert Parker. In truth, although these seem like "safe" approaches, they are not. They could be seen as easy-out solutions or lazy approaches by those not willing to invest in serious research to understand what one's customers really value. Or these approaches could emerge from a perspective that "the best product will win." The truth is that these approaches are not only easy-out solutions, they are downright dangerous for the winery. You do not really know what your customers, potential or current, value until you talk them, until you spend time trying to see their world as they do. Taking time to do this will help a winery discover unique opportunities to differentiate one's winery and wines and communicate that difference through superior marketing. That said, there are better and worse ways to talk to customers and try to understand their world. Let's see how the best of the best do it.

Qualitative methods for understanding markets—primarily consumers and channel customers—include one-on-one interviews and conversations, focus groups, observation, and even analyzing digital content such as email, Facebook, Twitter, and opinion blogs. These techniques come from disciplines such as psychology, sociology, and anthropology. They help us see more deeply into what experiences mean for people, what they value, and how they interact with us as well as with wine and wineries. These experiences may have wine as a focal object, as when consumers visit a winery for tastings, or wine can merely be part of another social experience such as an intimate dinner, a formal party, or a casual cookout.

All research must begin with a focus on a particular type of phenomenon—something that happens, such as "entertaining close friends where wine is part of the experience." We then decide on our research objectives—that is, what we wish to know about that phenomenon followed by research questions we would like answered that will help us reach that objective. A common aim of qualitative research is to build a framework that describes this phenomenon. Maybe it is what such an experience means to those involved (meaning), or how the entertainment is planned (the process), or how the group interacts during the event (a microculture). These are three different frameworks or models, each one with the potential to provide important insights for marketing. We describe each framework briefly, and then explain how we develop them through careful sampling, data collection, and data analysis.

Meaning

Getting at what experiences mean to people is important. It is not about simply asking what is important. What the vast majority of business managers seek is rather shallow and surface level, although they think it is deep. Any competent business knows the basics of what their customers want and value, but the world-class ones dig deeper. They try to get at the heart, at the essence, of experiences where their products are involved. For wine, this is not simply a list of the occasions when wine is consumed (Christmas or Thanksgiving dinner, a casual party, an intimate candlelit dinner). Meaning gets at what makes that experience unique and different from others. When we do research related to wine, we are seeking the role wine plays in those experiences and the meaning of the wines that are consumed.

Wine can be a social enabler, also known as a social lubricant, but it can mean so much more. It can be the focal point of a gathering, as in a neighborhood wine-tasting event, in which case it may mean friendship, exploration, education, and an escape from the day-to-day routine. When it is used as a special gift, wine can mean that someone cares. In both the wine tasting and gift situations, wine selection will be careful. But wine does not always mean one cares a great deal, even when it is used as a gift. The man who remembers at the last minute it is "appropriate" to bring wine to a dinner party may simply grab the most convenient recognized brand on his way to the event. In this case, wine means social convention and may even mean a little bit of resentment when he would rather bring a case of beer.

A focus on the meaning of people's experiences recognizes that our products are not often the central focus of people's lives. They are certainly part of people's lives, but sometimes a much smaller part than we like to admit. In order to communicate with customers we need to connect with them in terms they prefer, and demonstrate that we know where we and our products fit into their worlds. In this way, as marketers, we can interact with them in very real, authentic, and sincere ways rather than come across as we're simply trying to get consumers to buy more.

The marketers who understand this spend a great deal of time capturing the essence of consumers' and even trade customers' worlds. More than simply "walking in their shoes" as the saying goes, they are intensely curious about customers and how they can help make customers' lives more enjoyable, better, and easier through their products and services. This is extremely difficult at times because in intensely competitive and mature markets such as wine markets, many wine producers have the same information and use it in similar ways. This does not help a wine producer differentiate from competitors. In order to stand out, one needs to dig deeper than others are willing to dig, to explore, to connect in ways no one else does. In this way, new discoveries can lead to improved products and more relevant marketing.

Process

The second kind of information marketers often seek is process information. Think of process information as "how people do things." For example, it is important to know how consumers shop for wine. From the first recognition of a need or desire to purchase wine, through the exploration and data collection phases, all the way through the experience in a store or in the checkout line, marketers need to know what happens and why. It is important to know the criteria consumers use when they shop for wine. This is again, obvious. At the basic level, consumers want a good value, meaning a decent or high-quality wine that will meet their needs at a price that seems reasonable or lower than it would be on average or compared to similar products. When price is not an issue, or even when a high price indicates a higher level of "caring" for the person to whom the wine will be given as a gift, then high quality and strong brand recognition will become selection criteria. None of this is new. Every single winery leader and manager we met with, every single one, stated that one thing that sets their wine apart is quality. Think about that for a minute. Does anyone spend a career in a business trying to produce average or low quality? Of course not. So the real thing we need to know is what does "quality" mean to the customer and how do they determine whether a wine meets the quality standards they have at different times in different scenarios? But marketers want to know far more.

There are numerous customer processes a wine producer should understand. Concerning consumers, it would be nice to know how they select the wines they purchase, how they fit wine into their lives, and who else is involved in the decisions, if anyone. It is important to know how many bottles they purchase on average per trip, how frequently they make purchases, and where. How long do they deliberate as they make their selections? There are literally hundreds of questions that might be important for a winery to answer regarding consumer processes in order to best know how, when, and where to market to them.

Concerning trade customers such as distributors, a winery needs to know how the distributor selects wines to add to its portfolio, how frequently they change the portfolio mix, how they want to interact with wineries they represent, how they manage their customers, and so on. Again, there are many processes that a winery ought to understand in order to best know how to connect with the distributor's world. Formal research, meaning research that is designed to collect specific data and uses disciplined processes for analyzing and implementing the findings, is necessary for effective marketing and sales and consistent improvement.

Microculture

The third and final form of information we will discuss here is microculture. A microculture is something smaller than a national or regional culture, the form most people think of when they hear the term "culture." In most of our interviews, managers described market segments in terms of national culture—for example, what Americans want as compared to the Chinese, Germans, or Kiwis (New Zealanders), and sometimes global regions such as Asia or Europe. In some cases, major metropolitan areas would be referenced, such as Hong Kong, New York, or Southern Italy. This is useful at one level. As an aid to understanding national culture, aside from wine-marketing books that all seem to discuss the topic, a market researcher can look into the five-category model developed by Geert Hofstede, with tools available online at his website.[2] Here, one can see how various countries compare on dimensions such as collectivism/individualism or masculinity/feminism. National culture helps a marketer understand broad, sweeping habits, norms, and values.

However, microculture refers to small groups of people who gather with similar interests. For example, Harley owners, Jeep owners, coffee shop aficionados, foodies, or wine enthusiasts might constitute microcultures. Combining national culture and microculture would reveal how a type of microculture actually is different depending on the nation. And obviously there can be much smaller, more refined microcultures. No matter at what level of analysis the culture is examined, we are looking for norms of behavior, collective attitudes and values, rituals, symbols, forms of connecting, and artifacts. We want to understand the roles various members of the group play, how members join and leave the culture, how the culture changes, and so on. Here, insights are not as much on what experiences mean or the process of making decisions as they are on unwritten rules of behavior and assumptions about the world. We want to know how wine fits into each particular microculture.

Each of these three forms of understanding is important, not only for consumers but also for intermediaries. Sometimes, thinking in terms of "meaning" or "culture" may not seem important concepts when it comes to distributors, retailers, and restaurants, but they are. Business leaders have exciting and meaningful, mediocre, and even awful experiences with their suppliers and with their own customers. They run events that are meaningful to them. They purposefully manage their organizational cultures. A winery ought to know these things about their important business customers. Once again, only with this level of insight can the winery engage in relevant connections with them, be considered important by them, and help them achieve their objectives thereby achieving the winery's own objectives.

We said that market research ought to be accomplished with purpose and not in an ad hoc manner. In an industry with overcapacity and constant change, it is imperative that a winery that wishes to survive stays up to date with what customers want and what competitors are doing and should do so in part by digging deep to develop rich insights. The way qualitative data are collected and analyzed differs from quantitative data.

Qualitative Data Collection

Qualitative data are collected primarily through in-depth interviews and observation. There are other methods. For example, some wineries like to hold focus groups or have their consumers keep journals about any experiences they have with wine, while others are spending time analyzing online blogs, Facebook posts, tweets, and chat rooms. We, the authors, do all of these. As this is not a market-research textbook, we will simply describe the techniques and at that, limit the discussion to interviews and observation.

An in-depth interview is a conversation, not a survey. It is not casual, although it may appear somewhat casual. It is a conversation guided by a few key topics. So for example, questions will be open ended in order to encourage the participant (customer) to speak a great deal. The goal is not to gain a list of facts but to get inside the customer's world, to let her describe her experiences (meaning), the processes she follows (process), and the groups of which she is a member (culture). Whoever does these interviews, be it a sales professional, winemaker, owner, or consultant, the intent is to be intensely curious and in a discovery mode. The researcher must engage in deep enough conversation so as to get beyond the obvious, beyond what everyone else and the researcher already knows. This researcher must set aside preconceived notions, assumptions, and theories. This researcher must be completely open-minded and ready to get excited about interesting, conflicting, even "odd" insights. This is where opportunity resides. Building rapport and engaging in a 45-minute or longer conversation about a person's everyday world is fascinating, exciting, and eye opening. For a marketer, this is gold, but it can only be found if one is open to seeing it. As many have said before, sometimes the most important ad powerful messages come in the form of whispers. You have to listen *closely*.

Observation is accomplished by visiting customers where they "live." This could mean spending time with distributors at their operations and with their customers. It could mean spending a day with a retailer. It can mean spending time with consumers when they are consuming wine. It also means shopping with them. A "shop along," as this is thought of in the consumer goods industry, is when you go along with shoppers as they work their way through stores, letting them think out loud so that you see what they do and hear what they think. Research firms will video-record these trips and audio-record the interviews.

Maybe a winery sales professional does not have access to retailers and their customers such that they can shop with consumers. However, the information can be obtained from distributors, retailers, or research firms who can. Observation can also involve spending time at wine events with consumers and simply watching what they do and listening to what they say. If formal recordings are inappropriate, then notes ought to be taken at the time or immediately following the interactions. Sales professionals do this and call them sales-call reports. However, these sales-call reports are often factual and not nearly detailed enough to get at what we are describing here. They should be though.

Data Analysis

What does a manager do with these data once they are collected? Data analysis in the qualitative world is referred to as interpretation. We do not simply note what people say or do; we interpret what they mean and why they do what they do. Thus it is important to look at the words people use, such as the metaphors they invoke and analogies they make. We look at the story people are trying to tell us. With a story as a lens, we look for the characters, plot, and tensions in people's descriptions. Everyone is trying to tell a story. Our job as researchers is to not only understand the story but understand why each person is using that story to communicate with us, what experiences mean, and how we can participate in the good stories.

We teach entire seminars simply on the many qualitative methods for data collection and analysis. We could explain in detail how to take field notes, how to transcribe and code interview transcripts and photographs, how to use tools such as semiotics, symbolic interactionism, and other linguistic analysis tools to examine what people do and say from numerous angles to arrive at multiple interpretations and then refine our understanding to the best interpretations. That level of detail is well beyond this book. At this point, recognize that marketers serious about connecting with customers will not stop at the obvious and common. They will apply well-tested techniques to dig deeper than competitors will and gain insights they won't. At the very least, the exercise of getting close to customers in these qualitative ways sends a message to customers that you care. There is very little more powerful than showing genuine caring, whether it is an interpersonal relationship or working with customers.

Quantitative Methods for Understanding Markets

As a complement to qualitative market research, wineries have several quantitative traditions at their disposal that they apply. The most obvious would be surveys. Some nonresearchers see surveys as qualitative. This is usually because the surveys they design and use are a hodgepodge of open, multiple choice, and ranking questions. The best anyone can hope for with these surveys is to count opinions—that is, run a frequency analysis to claim that 70 percent of respondents liked Merlot over Cabernet Sauvignon, for example. Ideally, a researcher would be more rigorous than this. A survey designed and executed well can tell you a lot. If a winery does not have the expertise, as with any research method, then they should hire someone who does.

Surveys can be used to determine what consumers prefer or what distributors like about working with a winery, but they can also reveal how satisfied and loyal people are, as well as the most critical drivers of those outcomes. They can allow comparisons to be made between groups at statistically meaningful levels. They can even do much more. However, to gain any truly useful information, careful attention ought to be paid to survey design, which should be driven in part by the analyses the researcher intends to make.

Surveys capture people's perspectives. We can ask about their perspectives of past experiences or opinions about the future, including their future intent; we prefer the former over the latter. Very few people are good at forecasting the future, including customers forecasting their own behavior. There are a few basics we can cover here about designing surveys and analyzing the data. For further details, there are many sources and consultants, of course. But we want to orient your thinking so that you can make the best decisions possible.

Most opinions a winery wishes to know fall into categories. For example, some are about the wine product as in quality, taste, price, and so forth. Others are about product availability, while more are about the wine cellar/

tasting room, customer service, and so on. Questions can be grouped into these categories and then later averaged to arrive at an average score for each category. So what do we mean by "score" and "average"? There are at least five different types of questions you can ask:

- open-ended questions,
- multiple-choice questions,
- ordinal-scale questions,
- interval-scale questions, and
- ratio questions.

The average we mentioned refers mainly to the most common form of question asked on well-designed surveys (i.e., interval scale questions). Open-ended questions let respondents say what they want within a certain space or character limit. Multiple-choice questions let respondents choose one or more responses from a list. Ordinal questions ask them to provide a ranking usually. Interval questions measure the strength of an opinion along a scale where it is assumed the distance between each score is equal to the others. For example, on a scale of 1 to 5, it is assumed that the distance between 1 and 2 is the same as between 2 and 3 and so on. Finally, a ratio scale measures precise range rather than opinion strength—asking about salary, revenue, number of bottles purchased per month, and so on, are all examples of ratio scales.

Most well-designed surveys include all forms of questions, but the heart of a survey usually involves interval measurement questions typically written in a form referred to as a Likert scale. Most market research surveys measure opinions and specifically those which drive satisfaction, loyalty, and word of mouth. This means that the question is written as a statement, and the respondent is asked how strongly he or she agrees or disagrees with the statement. For example:

> "The 2011 XX Pinot Gris is a great value for the price."

This statement would then be scored along a continuum such as 1 to 5, where 1 means "strongly disagree" and 5 means "strongly agree." We have all seen and many have used these questions. There are a few points we would like to make.

First, due to the nature of the scale, when a large sample of answers is collected, the answers (scores) can be averaged. The distribution will have an average (or mean), a standard deviation, and a few other characteristics. We won't get into the statistics here, but many software packages, and better yet, online survey tools like those from Qualtrics or Survey Monkey immediately calculate what you need. If a survey asks multiple questions about a category such as customer service (e.g., friendliness, responsiveness, effectiveness), the scores of these questions can be combined, summated, or averaged to create an overall "customer service score." This collapsed score can be averaged across all respondents.

Second, these mean scores can be used to help predict other variables. For example, "satisfaction" is considered an outcome variable or dependent variable. We want to know what drives or predicts this dependent variable. More precisely, we want to explain the variance in the scores for satisfaction by using the best and smallest number of other variables we refer to as independent variables. So in our example, we want to know if any or all of the opinions about products, tasting rooms, and customer service drive satisfaction. If we have average or mean scores for each, we can place the independent variables of product, tasting room, and customer service into a regression equation with satisfaction as the dependent or outcome variable.

Third, it is important to avoid common mistakes. One is to ask "How satisfied are you with—," completing each question with "the wine quality," "the price of the wine," or "the responsiveness of the customer service staff." These questions ask two questions in one. The correct way to write these questions is to ask about performance on each item like wine quality and customer service such as "Compared to what you normally expect for a wine such as this, the wine is priced about right," scored on a 1 to 5 scale, "strongly disagree" to "strongly agree." Then ask about satisfaction at an overall level. "I am completely satisfied with this winery," again on a 1 to 5 scale. Once again several questions can be asked about satisfaction and then collapsed for an overall score.

Far more complex analyses can be completed than regression equations. However, based on what we have seen globally in the wine industry, when it comes to what a winery performs or hires a research firm to perform, even this would be fairly advanced. Making the correct choices in survey design including question type, sample selection methods, and data analyses is not difficult, but it is important. If you're going to go through the effort to execute a survey, do it in such a way that you can make solid decisions. Merely counting percentages is not enough.

Surveys can also be used to compare respondents on any number of demographic variables. For consumers, this can be standard age, gender, location, income, education, ethnicity, and so on. However, comparisons can be made based on frequency of purchase, varietal preference, or use occasions. An important decision is to think about the analyses you will want to run later when you design or approve the survey. The more sophisticated wineries doing market research will conduct many analyses to get insights to the marketplace, such as cluster analyses to segment markets or conjoint analyses to cluster product or winery features.

Some of this may seem complex for a small winery. We would like to argue that today, it is not. With online survey tools that offer easy-to-learn guidance, a small winery does not need a large budget to perform this kind of research. It is a shame to see so much research effort placed into viticulture and wine production only to leave the research necessary to connect the wine with the correct markets to die on the vine, so to speak. Year after year we read blogs that state what we heard from many wineries:

"We don't have the time or budget to invest much in market research or marketing for that matter. We feel that if we make the best wine we can from the grapes the soil will produce, the right customers will find us."

Nothing could be further from the truth. It may work in a random sense, but not a controllable and predictable sense. We also heard:

> My philosophy of marketing goes back to working on the Champagne brand. And development of brand essence is absolutely essential to making a brand relevant to trade and relevant to consumers. The brand needs to have a personality and needs to have a story. The company can support that personality but it needs to be really authentic, really true to the place not just made up because some marketing study says you should be appealing to. The fact of the matter is, we're so small that we don't need to go through consumer segmentation studies to try to concoct who it is that we're appealing to. We're putting forward who we are, and the people who like who we are are finding us.
>
> —senior marketing manager of a California organic winery.

Running a business in hopes that customers will find your product is not running a business, it's producing a product. However, as this manager pointed out, given her winery, its size, and its objectives, the extent of research did not need to be at the level she performed when she worked for a large, high-end global producer. Apply each tool to the extent necessary to answer the questions you have satisfactorily, no more and no less. It all depends on the questions one is asking.

Experiments are the second of two quantitative approaches we will mention here, but only briefly. Experiments are widely used in wine production but are not very common as a form of market research. As far as market research, experiments come in the form of product testing and market campaign testing, usually referred to as test marketing.

Product testing refers to tasting tests. These can be taken by wine experts or by consumers. Standard experimental design rules apply such as control variables, manipulation checks, and masked research objectives. Market testing usually means trying a marketing campaign on a small scale before launching it widely. To know if the market response is due to the marketing campaign and not other causes, a control market of comparable characteristics is usually used. So the campaign might be run for a month in Naples but not Rome. Pre- and post-campaign sales data are collected. Campaigns that hit objectives are rolled out to more markets.

Web Research

Data on the Internet can be used to gain ideas as well as assess performance. We address diagnosing performance in chapter fourteen.

It is not easy to place research conducted on the Internet cleanly into qualitative or quantitative. This is because the sheer amount of data allows qualitative forms of it, such as blog text, to be analyzed quantitatively. Aside from using the Internet to collect answers to survey questions, what is already on the Internet can be analyzed with sophisticated tools, some of which are inexpensive to obtain. That said, most wineries we know that conduct web data analysis hire a third-party firm to execute it.

In the wine industry, producers are most interested in what consumers think about and say about their wines. Third-party research firms can extract this information from sources such as blogs by opinion leaders, Facebook posts, forums, tweets, and even Instagram posts. Just identifying whether comments are positive or negative in association with a brand is known as sentiment analysis. Today, research firms can go further and gain insights to what consumers are saying in detail. This may seem rather easy, to interpret what people are saying, but given that one month's posts in only one of these online social media applications could amount to the equivalent of seven thousand pages of text if printed, you realize that special tools and skills are needed to mine those data.

The next section covers some interesting contemporary research topics.

Contemporary Market Research Topics

In this section we discuss three interesting topics for contemporary research: customer behavior/value prediction, label research, and competitor research.

Customer Prediction

We made the statement that most people are poor at forecasting the future. Although this is true, a few companies are spending a great deal of time trying to do so and are making good progress. In this case, we are not talking about sales forecasting, which is more about the amount of product the market or specific customers will purchase in the future. We are talking about predicting or seeing changes in behavior. For example, a common question asks what the next wine trend will be. This is not the sophisticated part we want to mention, but it is an interesting one. Many wineries are concerned about trends so that they can take advantage of them and manage capacity or increase marketing if they see a shift toward or away from the wines they produce. Wineries usually learn about trends through secondary data industry reports, by looking at industry sales as compared to their own, and by speaking with companies close to the end-user market such as retailers and distributors.

However, how does a winery know when a particular retailer will reduce the amount of wine they purchase from the winery? How do retailers predict changes in the kinds of wine a shopper will purchase? How does a winery know which marketing campaigns and tools will work with which customers? Questions such as these, and many more, fall into an area known as predictive analytics. Many consumer goods companies will partner with research and data firms to analyze data in new ways. Some of this work is in "big data mining." Simply put, data mining looks at large databases, such as sales-transaction data at all of a retail chain's stores, and looks for patterns. As opposed to beginning with a framework and designing a study to test hypotheses in the framework, data mining looks at the data in millions of ways to determine what the framework should be. Looking at transaction data that is tied to specific shopper identifiers allows retailers to literally see changes in buying behaviors that suggest changes in their preferences.

Similarly, some software systems are getting pretty good at analyzing qualitative data such as on Facebook, blogs, and even notes from call-in customer service centers to determine overall positive or negative emotions and opinions and use these results to predict probable defect rates and changes in buying patterns.

Only a very few of the largest wine producers with which we met were selling in enough volume to warrant such approaches. However, as with most tools, eventually these tools will become more affordable and more appropriate for even small wineries to help them use data they already have in their hands to gain insights into how to best serve customers.

Label Research

A second contemporary example of market research concerns label research. At first, your reaction might that wine producers have been researching effective labels for years. This may be true, but think about how it is most often accomplished, and we will show you better ways. Typically, a creative team from an outsourced agency or even a few family members and the owner examine current wine labels in light of brand-identity objectives. They take into account the historic significance of wine-label elements, meaning the current importance to the brand's identity of those elements, and try to balance retaining critical elements with incorporating new ones that suggest a desired change in identity or positioning. So for example, a wine producer may want to update the look to feel more modern but not lose some key elements associated with the winery. Sometimes this can be controversial.

We recall with fondness hearing about a young manager trying to run just such a label update project. The existing label highlighted quite prominently a Roman tower in its center. The tower certainly was a key architectural landmark associated with the winery; however, the winery was not an old Roman-era winery, nothing happened in the tower connected with the winery, and there really was no compelling story associating the tower with the winery. It was simply a unique and interesting landmark. In trying to change the label to make it more relevant and symbolic of the winery, strong opinions and even arguments ensued over what to do with any version of an image of the Roman tower. Some wanted it to remain, some wanted it gone. "No one makes or drinks wine in a tower!" we were told by the manager, who clearly wanted to downplay its role on the label. At the time of this writing, a smaller image of the tower still remains on the label—a compromise.

This is a common story when it comes to wine labels. Often the winery owner has the loudest voice, and the label becomes symbolic of what she or he thinks the winery stands for, or at least what she or he *wants* it to stand for. The actual winery reputation and identity can be a different story. The alternative is that tradition, possibly even ancient tradition, constrains any change efforts to a label. The "research" in all of these cases typically involves winery leaders' opinions and a guess at what the market thinks about the label.

The more contemporary view that we saw in numerous places was to not only consider the winery owner's passion but to consider the brand personality of the wine. It is easiest and most enjoyable to create a new label from scratch. It can also risk the wine's identity and a personality clash with other portfolio brands or the overall image of the winery. So how does one create and select such a label? The research-driven approach is to conduct qualitative and quantitative customer response projects at a minimum. Specifically, focus groups and interviews can be helpful at getting at reactions to various label options. Surveys gathering a larger number of opinions on various labels are another possibility. And we are not only talking about the image and words on labels; the form, such as peel-off folding labels, can be tested in these ways. However, note that there are a number of problems with these approaches, even if they are better than making a decision in a closed room without any input.

First, by exposing customers to various ideas, some managers feel they are "tipping their hand" (letting people know) that something is changing, and this could be risky. Second, if you do not use any of their input, some will be frustrated. Third, and more precisely a research problem, is that the first labels to which they are exposed will bias their opinions of the subsequent ones. But again, many wineries find this customer-input process helpful.

Another research approach involves experiments. Here, managers, wine-label experts, creative artists, or customers (or all of these) are randomly assigned carefully designed label options where only a few elements are changed from label to label, and then respondents' reactions, such as purchasing intent or assignment of a personality description, are recorded. The labels that align best with desired outcomes are selected.

An even more interesting method of label research is to conduct linguistic and art impression analyses. Specifically, font type, letter shape, colors, image balance, eye-tracking order, dwell time between label elements, and more assessments help get at subconscious as well as conscious reactions to labels. This approach assumes that people cannot usually articulate why they like what they like or feel what they feel about labels or bottles or packaging. This kind of work can involve semiotic and symbolic analysis, which, at the risk of being too basic, studies what and why symbols, including words and letters, mean what they do to people. Only a few of our meetings revealed wineries this sophisticated in their label research, but it is fascinating and enlightening when this approach is included.

Competitor Research

Our last research topic is competitor research. We have been focusing the majority of this chapter on customer understanding, but wineries also spend time studying competitors. In fact, they may spend more time studying competitors than customers, unfortunately. That said, many leaders with whom we met told us that they don't really see other wineries, even or especially those within the same region, as competitors. For this reason, they are more willing to partner with other wineries in the region to pool resources for marketing. This is especially true when international sales are at stake. Many smaller wineries do not have the resources to run advanced, diverse global-marketing campaigns. They can pool their resources with other wineries locally to help promote the region internationally, running under the assumption that a rising tide will lift all boats—if the region becomes more well known, everyone will win a little bit as opposed to one large firm winning at the expense of smaller ones.

Wineries in truth do have competitors, and most know it. They keep abreast of what others are doing by studying competitors' marketing efforts and product offerings. They visit other wineries. They hear through customers what competitors are doing. And they see what competitors do at trade shows.

Summary

In chapter nine we focused on market research. We discussed why it was important then covered qualitative methods followed by quantitative. Within qualitative methods we discussed meaning, processes, and microculture. Within quantitative methods we covered surveys and experiments. The chapter concluded with a short discussion on prediction, label research, and competitor research.

CHAPTER 10

Contemporary Branding Tactics

Case Vignette: Château Smith Haut Lafitte, France

This case vignette is starting with the story of two people, Daniel and Florence Cathiard. They are former ski champions and were members of the famous French Olympic team in the sixties. With charismatic personalities and a gold touch in business, they are best actors in a company's history, so we would like to open this case study telling their stories.

After the death of his father in 1970, Daniel found himself running the family's small supermarket chain. Within 20 years, he had transformed it into the tenth largest mass distribution group in France (with 15 hypermarkets and 300 supermarkets). At the same time, he launched and developed a chain of sporting goods shops in France, Belgium, Spain, and California (with about nine thousand employees). The best part of the story starts with a love story. Daniel met Florence while they were on the French Olympic ski team in 1965. After they married, she worked with him for ten years before launching her own advertising firm, later becoming vice president of McCann Europe in 1985. This is undoubtedly a talented couple, and as Florence said in an interview: "Talent without ambition will be kept hidden, like a cèpe under autumn leaves; it will slowly fall apart if it does not offer itself to the eyes and palate of others. As for ambition without talent, it is just pathetic . . . and it's all too common."[1]

In 1990, they decided to sell all their business interests to buy Château Smith Haut Lafitte, a property located in Bordeaux-Martillac: "The reason we chose Château Smith Haut Lafitte is quite simple: it was love at first sight when we visited the château's magnificent underground cellar, which fits in perfectly with our desire to make one of the world's best wines." Over a two-year period, they invested massively in renovating both the winery buildings and the manor house, where they decided to live and to devote their energy to their newfound passion: making outstanding white and red wines.

The real beginning of grape growing on this property dates back to 1365, with the noble Bosq family. Then, in the eighteenth century, George Smith built the manor house and gave the estate its present name. George then started to export his wine to England on his own ships. In 1842, Mr. Duffour-Dubergier, a mayor of Bordeaux who was an enthusiastic winegrower, inherited Château Smith Haut Lafitte from his mother and brought the wine up to great growth status. Impressed by Smith Haut Lafitte's excellent quality, the Louis Eschenauer company distributed the wine all over the world starting in the early twentieth century, and decided to buy the estate in 1958. After them, the best period came to an end, and a great deal of money had been invested in the estate, particularly on the construction of a superb underground cellar holding over one thousand barrels.

Château Smith Haut Lafitte now belongs to Daniel and Florence Cathiard, and it is managed directly by the owners, with the support of a commercial director and a technical director. "Our philosophy can be summarized in one sentence: to do our utmost so that every vintage of our red and white wines reflects the full potential of our magnificent terroir. Our efforts range from increasingly organic vineyard management and slow natural fermentation of the grapes to ageing the wine in superb underground cellars and serving it to wine lovers in an appropriate tasting room."

This company is devoted to its terroir: "Our appellation has such a strong personality that it has given its name to our region: The Graves." They use the most up-to-date technology for the best expression and preservation of the terroir, and they use a bioprecision approach that promotes the biodiversity and balance of the vineyard ecosystem through hedge plantings, use of natural grasses, production of organic compost, and horse ploughing, among other techniques. "We don't like the 'organic' standards: the large use of copper is too bad for the soil," underlined the commercial director during our interview. During our visit for our research, he introduced his company with an exclamation: "We produce wine to be pure and paired with food!"

Château Smith Haut Lafitte adopts an "at the right time, hand-picked, plot by plot, bunch by bunch" method of harvesting, then bunches are examined and sorted with the assistance of state-of-the-art optical sorting equipment. They also place meticulous and fanatical attention on wine making, both for red and white wines. We don't include production details in this case vignette, but what is rare is that this company makes its own barrels: the château's on-site cooperage produces nearly 450 barrels a year, which corresponds to two-thirds of their needs. "Barrel making can be compared to bread making. Warm, handmade bread just out of the oven is a hundred times better than industrially-produced bread made from frozen dough and sold three hours after it has been baked," wrote Daniel Cathiard on their website (available in nine languages).

We could write pages and pages about this company, as their history is rich with anecdotes both from the company side (dozens of awards and high ratings, referrals from experts and wine magazines) as well as from their life and roles in the society. In his past, before dedicating himself to the wine adventure, Daniel took a sabbatical year and sailed across the Atlantic, drove in a car rally in Mexico, ran the New York Marathon, and returned to his business immersed in the culture of his home. Also Florence is a source of interesting stories; the Internet is rich with interviews and news about her. For example, between 2006 and 2009, she was member of the Moderation and Prevention Council against Alcoholism, and since 2010 she has been a member of the Union des Grands Crus, vice-chancellor of the Académie du Vin de Bordeaux, and foreign trade advisor of France. In 2014, Florence was elected president of France's national wine tourism council, and the government named her a chevalier in the French Legion of Honor: "We will soon be celebrating 25 years—a quarter of a century—at Smith Haut Lafitte. We're at an age when most people look back over the path taken," she said. "Daniel and I prefer to look forward, to have new projects with young people."[2]

The couple has two daughters who have created their own businesses with their respective husbands. Mathilde Thomas-Cathiard and Bertrand manage Les Laboratoires Caudalie, specializing in beauty and health-care products made with polyphenols from grape seeds and that are distributed in over 20 countries. Alice Tourbier-Cathiard and Jerome manage two luxury hotel complexes, Les Sources de Caudalie (plus a wellness spa with wine therapy), and Les Etangs de Corot, and they are opening boutique hotels in other countries. All the hotels are in vineyards: "Two hotels, three restaurants . . . everything is turning around the wine . . . Food, hotel, cosmetics, wine, art . . . it is quite unique as a chateaux profile. The strategy is to have everything linked," commented the commercial director.

Artistic sculptures and a contemporary art collection are placed around the property, findable through an interactive site map and guided visits. This tour is one of many available at this location, some are also interactive visits. Every corner of this property is amazingly detailed. The glamorous touch of the owners, their expertise in business, and their skills in marketing make them one of the best cases for our contemporary brand tactics chapter.

From Brand Storytelling to Brand Narrative

In this opening case we presented a company and a family story compiled from what they wrote about themselves online and in their communication kit (we received it in a fancy, innovative business-card-size pen drive), what they told us during interviews, and what we found in other external sources (some from previous interviews with owners).

Their storytelling is rich with pathways, in which a curious visitor could personalize what to get, absorbing details on his favorite aspect of the story. As it is common in online communication, where websites are created on hypermodality, with many hypertext links (usually a word or a sentence that is blue colored and linked to another page or section of the Web that provides more details about it), in this case also the tourist experience is customizable, having different options to tailor the visit. We could add many more details, plus our personal experience visiting their vinery, the old cellar (and the secret room behind the Door of Paradise), tasting the wine, and, with a beautiful view of their vineyard, ringing a bell while making a wish. This particular company's story includes all the classical characters of a good story in the high-end wine industry: an ancient history of a property, a particular story of a family, a story of company growth, the unique location and its beauty, winemaking techniques and other professional expertise, challenges to overcome, innovation and technology, food and wine, tourism and luxury services, plus an ongoing happy and beautiful resolution. This is not a brand with a product as the main focus; this is a brand where the luxury style and related clues can be found at every touch point.

On average, in branding communication the product is often predominant, a wine style with a dominant visual of bottles and labels, a production process. In our opening case, the message about the quality of wine was naturally embedded in the entire picture. Their communication tactic is to drive perceptions to the beauty of where they are, to wrap them in emotional power and embed wonderful wines within the imagery.

Image 10.1 Château Smith Haut Lafitte.

Even though this family story is intense and unique, it may not be liked by all kinds of customers, and it may hide some risks. For example, Europeans may value differently a family novelette than Americans, as Florence Cathiard commented while talking about North Americans' expectations of the wine experience: "Their interest for our family 'saga' does not prevent them from focusing on the qualities of the wine in the glass. On the other side, in France, they sometimes think that having a successful family prevents us from making iconic wines."[3]

The Story

Who doesn't like a good story? Storytelling is not new in brand management, and it is nearly ubiquitous in the wine industry. You're probably thinking then if that is the case, why is storytelling a contemporary approach to winery and wine brand management? It is contemporary because (a) very little effort has been made to classify the kinds of stories a winery can and typically does tell, and we do that here, and (b) there are contemporary approaches to *how* a story can be told that many wineries have not adopted yet. Remember, a key part of the success of a good story is how it is told.

When a winery tells its own historic brand story, it may look something like this passage from a large, successful Italian winery with a long heritage: "In the mid-20th century, with the purchase of the magnificent Villa Novare in the Valpolicella, together with its 220-hectare estate, [Winery] finally brought to fruition a 50-year research project aimed at producing 'The Wine,' a wine born to live forever. It is here that the story of Amarone starts, an intense wine that is the symbol of the land from which it is born; the first vintage was 1958."

Or a story may invoke mythology: "Can wine and art come together to create an experience as lofty as Olympus and as lusty as the rascal Bacchus? We think so. Here's our story."

Stories we heard and collected ranged from why a family decided to become winemakers, to being owned by an indigenous New Zealand Maori tribe member, to a history of the land, such as this passage: "[Winery] rests on the slopes of an ancient volcano. Over thousands of years, erosion helped create the terrain, soils and characteristics that make our wines unique. Our vineyards sit on land once farmed by Oregon pioneers who took to the unique location despite its challenges and lack of water. [Winery] has a rich heritage. We are proud to be part of its story." We encountered hundreds of passages concerned with how wineries embrace their own "unique" story and used that to breathe life, personality, and character into their brands and wineries.[4] Every winery we met with had a story to tell, and they often told it in person, on their websites, and in brochures. As we looked at all of the stories the wineries told, we found that we could classify them into these types:

- historic (process, place)
- family- or owner-focused
- geographic (connecting to lands and people)
- myth-invoking
- romantic

A historic story describes the history of the castle grounds on which a winery resides, or how the oldest known living grapevine that stills bears fruit is just down the street (it happens to be in Maribor, Slovenia, and is four hundred years old), how the building housing the winery used to host historic aristocratic events or was a monastery for centuries.

A family- or owner-focused story tells how the founder began the winery and maybe was one of the first pioneers in the wine region, how he grew up around farms, how he is a count with aristocratic roots, how he is the son of a famous and internationally known wine leader carving his own path, how he is a cinematographer, or simply about the first-generation family trying to make a go of it with their children and their dog. Our opening vignette was an example of an owner-focused story.

The geographic story reveals something about the place, such as the beautiful dramatic mountains of New Zealand; or the rolling hills, perfect terroir, and lovely villages of Bordeaux or Montalcino. Geography stories can be about the local culture and friendly people, the amazing food like pasta in

Image 10.2 Inama mythology.

Italy, cheese and lamb in New Zealand, or steak in Argentina. Connecting to the people of a geographic location could tie a winery to indigenous Maori New Zealanders, political leaders of Germany, descendants of poets, or even movie stars in California.

A myth-invoking story taps into Greek or Roman mythology with imagery, metaphors, and analogies. Maybe the winery is named after the Babylonian goddess of wine. Sometimes these mythical beings are invoked to make parallels to the struggles and dreams of the young, passionate, and persistent owners.

Finally, the romantic story creates an image of blissful escape by invoking all that is passionate and intimate about wine, wineries, and wine regions as tourist destinations that many consumers imagine. These stories might discuss the wine, the beautiful bed-and-breakfast inn or chateau, the relaxing chairs and hammock in a secluded courtyard, the rolling green vineyards, and the cooking or sommelier classes offered to guests. Our opening vignette is also partially a romantic story.

Winery stories can be combinations of these as well. Stories are often told in several paragraphs for one main reason—to create a unique, interesting, and inviting image for customers. A story helps consumers remember a winery. If they love the story and enjoy their visit, they will recall their pleasant memories when they later drink the wine, and they will purchase the wines in part to relive those experiences.

The story types do not need to be mutually exclusive. For example, a family story may also be historic, such as that of Dr. von Bassermann-Jordan, Banfi (with three generations running the company), or other small but multigenerational wineries we saw in Germany and France.

But are all winery stories truly stories? If all wineries tell them, are they still useful as a differentiator? Some stories are and some are not. Some are intriguing and a bit unique while others are nice but not memorable. A powerful, unique, and authentic story can draw visitors to a winery from other nations.

We heard wonderful stories that certainly do make the associated wineries stand out, such as the Masi story about the gracious Boscaini family and its connection to Possessioni Serego Alighieri, the name associated with his winery estate at Casal dei Ronchi in Gargagnago, where descendants of the poet Dante Alighieri have cultivated vines for 20 generations. Count Pieralvise Alighieri, the last living descendant of Dante, established collaboration between Possessioni Serego Alighieri and Masi Agricola, and together they have been trying to save the rich Valpolicella region for its beauty and wine culture from industrialization pressures. This brings us to an important topic: the elements of a good story.

Good stories have five key elements that we all probably learned in school:

- setting
- characters
- plot
- conflict or tension
- resolution

In the above Masi and Alighieri story, the beautiful northern Italian setting, key executives as characters, and the plot to save and grow these old Lord-like wineries make for a good story. The industrialization threat from cement companies created conflict between them and the wineries, and to be honest, to this day the resolution is not certain. Visit these estates, or Smith Haut Lafitte, and you will want them all to survive another 20 generations as well.

We don't need to define each story element beyond making the important point that conflict or tension is an important element that is often missing or too subdued in winery stories. Even more powerful is the extreme tension that holds one's attention and climaxes just before the resolution. So for example, maybe it's not only that a winery is Maori owned, which helps native New Zealanders survive, but it's also about funds that have been redirected to children at risk in those populations and the positive outcomes that are celebrated. Craft a true, engaging, and authentic story, but ensure that all of the elements are there.

Also think about whether the winery is simply telling its own story or selling an experience and engaging customers. The best stories are ones where customers self-reference as they relive and retell them. If they see themselves as part of a story and experience, they begin to own it. A well-executed contemporary storytelling is interesting and should be planned in phases, starting to tease the prospect customer and get his attention with some interesting details about a story (like trailers for movies), then start revealing the full story piece by piece (throughout different media), and during the customer experience offering reminders with extended versions of the story and continuous updates of the story. It should be a slow revelation at every point of contact with the customer, to surprise and give value in each piece. This tactic helps keep the attention high and enforce the brand image. Don't miss this last important point—surprise. Positive surprises or unexpected twists and turns within stories retain customers' attention. For example, tying an ongoing story to wine releases and deliveries for wine club members gives members something exciting to anticipate and brings them into the ongoing story. To bring the story to a contemporary level, tell it digitally, engage customers through social media to bring it to life, help customers live its continuation and become part of it. If you do, they will become loyal customers. This is a form of cocreation, which we address further into this chapter.

Are these modern communication techniques applied in all two-hundred-plus cases? If you already read all of the previous chapters, you know the answer—no—and partly for that reason we wrote this book. Contemporary branding tactics should help a company differentiate its corporate and product image from others. The general manager of a successful company in California commented that a brand "needs to have a personality, have a story . . . be really authentic, true to the place . . . [we're] trying to be modern traditionalists . . . and you can't communicate it if you don't know who you are."

Whether the strategy is more traditional and standard, as in offering a complete story through standard communication rituals, or the strategy is more contemporary and engaging, select something and pursue it with passion and intent. We wish to inspire wineries in this way because we see significant effort from some professionals to reach only a bare minimum of visibility and reputation in the market or with an intermediary. We heard many times managers explain that they simply wanted to be known as they were, nothing more, and they were often convinced that this should be enough to sell their wine. Period. Since they had experienced some positive results in sales, and are not able to measure the impact of marketing on their revenue (or profits), it is difficult to convince them to adopt a more advanced contemporary branding strategy approach. For some, we suspect even adopting fundamental branding techniques will be a challenge. However, we spent time with many who were quite impressive. Many of these too, though, have opportunities to improve their strategies.

A smart brand manager starts to see and hear with his customer's senses. What a customer knows about a brand, how he gets in touch with information about it, and how he executes buying processes are all pieces of information the savvy brand manager has at her fingertips ready to apply to marketing decisions. It is more and more evident now, with what we know about the new media, that there are a lot of inputs from different sources that ought to be gathered, compared, and deciphered for effective marketing communication to occur.

There are three main critical points to keep in mind when trying to develop a good branding tactic: (1) a wine brand has different brand layers that can drive an overall principal perception; (2) brand communication is not only direct advertising or a planned message; and (3) there are many sources that are talking about wine and brands, not only the winery.

To address the first point, practitioners are already skilled at understanding which techniques are more powerful in making it easier to position their wine. They highlight what is important in their market. They are perfectly aware about what the marketing experts called the country-of-origin effect. Promotional bodies make marketing for an entire cluster to hit this point, add appeal to their collective set of wines, and promote their regional territory. A participant that represented Barossa Wine and Grape Association explained, "The message would be Barossa has history, it has rare and distinguished wines, it has the ability to age, it's playing in the same field as Bordeaux, Burgundy, you know. We can talk about each wine, you can talk about the wine maker, the grape grower, the particular vineyard."

A wine brand has different layers that work on customers' perceptions. On one level there is overall information about the location: megaregions (i.e., Old World or New World, traditional wine producers or emerging producers), nations (i.e., Australia or France), wine regions (i.e., the Napa Valley in California, Primorska in Slovenia), and the entire range of wine appellations, wine denominations, wine classifications, and so on, to arrive to specific grapes or single parcels. Reputations about each geographic level can influence a brand perception. The market is usually oriented to a wine style connected to a region, and if it is important for the preference, it is connected with a company's image. Location is a necessary element of the image, but not always sufficient to differentiate. We asked a question to a French wine professional: "You are in France, you are in Bordeaux, you are specifically in Medoc, what are you doing to communicate your brand?" The answer: "We communicate what you said, we are in France, we are in Bordeaux, we are in Medoc and we make good wine!" It was implied that because of the association with a specific location, it should be obvious that they produce quality wine. This is not a brand strategy. As a point of information, no one with whom we spoke ever stated that they made poor wine.

In addition, recall our discussion of brand architecture. There are a number of branding levels to consider when defining a strategy: corporate, portfolio, product category, product line, product (first and second choice), and vintage. Every company has a particular and unique storytelling approach, a style, symbols, a dominant visual, and a brand mark. The most evident result of these decisions is usually synthesized on the label.

The second critical point is to admit that what the firm is saying includes not only words in a classical promotion, but also its behavior. In our research we discovered many specific forms that compose the entire picture of a brand:

- product characteristics (wine itself, bottle, label, closer, package)
- marketing processes (digital media, printed collateral, interpersonal interactions events, architectural design)
- winery operations (e.g., vineyard management, fermentation, aging)

Image 10.3 Château Cantemerle.

- supply chain management processes (network structure, relationship management)
- organizational characteristics (location, organizational structure, employee skill)

Each of these elements can play a role in forming the identity of the winery and its brands.

The third element is related to what others are saying about a specific brand or company. Looking at the company as an outsider, there are a lot of sources and moments of truth where a perception is formed. In talking about the intrinsic quality of its products, journalists, experts, sommeliers, wine communities, and other consumers may have more influence in a decision than the company does. Many studies have confirmed that external sources are very often more credible than the official one. A direct personal experience then confirms or rejects the initial perception, and the engagement is strengthened with interaction.

Cocreation of Brand Images and Products to Brand Narrative

In our study, we also found wineries committed to an alternative approach, creating a unique and memorable experience for consumers and leveraging consumers' own memories as the story they wanted to tell. The brand image is cocreated with a customer, be it a final consumer or distributor representative, like in this case: "I've had reps come over for two or three weeks at vintage just to get a bit of a grounding and that does make an ambassador for life pretty much. If they do that and enjoy the experience they'll go back and they'll tell everybody that they were at the vintage, I assume they'll sell a lot of that particular vintage and it still will be an investment for you afterwards as well."

Let's explore this idea of cocreation a bit more. Cocreation can have multiple meanings. When we talk about cocreation of value, we refer to the idea that the wine has value only when customers experience it. Up until that point, all a winery can do is create the potential for value. But customers must be part of the product use for value to be created; value is not produced into the product. It's simply liquid in a bottle until it is experienced. An aging wine is valuable because of its potential to be a great experience or as an example of one that was a great experience (another old bottle of the same vintage that was consumed) so its value lies in the memory and the implied value potential. These wines are investment luxury goods and represent a very small percentage of the total wine market. So customers are involved in the value creation process along with wine producers. A friend and mentor in our marketing academic profession once said that we in society have evolved from the concept of going to market, to marketing to customers, to now marketing with customers. Ask yourself, have you evolved yet? If not, what are you waiting for?

However, the more common notion of cocreation is similar to coproduction. Here, customers are involved in any or all aspects of the product's development and production. One such example that didn't quite pan out was a California business where customers could purchase wine futures in barrel quantities, participate in the crush of grapes they had selected, return to participate in the bottling operation, and design their own label. This was probably the highest form of customer participation a winery can offer, not to mention also one of the most expensive for customers. Although an interesting concept, as of 2012, the winery had gone bankrupt and was under new ownership to restructure the company and care for the six-hundred-plus customers committed to the inventory and new production of wine. Was the idea of cocreation of wine bad? Maybe not, but it does suggest that involving customers in your winery business at this level ought to be done in a way that enough customers can participate and it produces profits and a sustainable business.

Cocreation essentially means to let customers of various types become involved. Certainly some merely want to experience the wine, but others enjoy being part of a label selection process, maybe in the form of a contest. Others like to participate in harvest and the crush. The more engaged you can be with customers, the more they feel like you and your wine are part of their lives. The more they own your story, because it is also part of their story, the more they will love your winery.

A brand experience is a wine experience; it is something that should be explained directly by the consumers. The brand narrative is storytelling where consumers are the writers, and they are also characters living as well as talking about their experiences, the scenes are in their own real lives, and thanks to a psychological approach to branding, a brand can become integrated in that real person's life. Meanings in this way are easier to capture, and the final storytelling is a collection of a large number of customers who are interacting

Image 10.4 Moss Wood vintage.

and providing their contribution to the brand meaning. Brand meaning morphs over time as the collective wisdom of the crowds' stories unfold. To adopt this tactic, a brand should have a strong personality and a clear style with which a customer feels a fit, a connection—relevance. A flat branding strategy usually does not motivate enough interaction to enrich the brand narrative without direct input from the company. In contemporary branding, brand managers need to let go of the illusion of control. Let us repeat that: in today's world, entirely controlling a brand's identity is an illusion. Consumers and customers have taken over. They can build, strengthen, or crush your brand faster than a winery with the largest marketing budget in wine history can. Once you embrace that, you will see how to tap into that power.

Consumer Engagement: Events, Competitions, and Tastings

In contemporary marketing, the word most often in use is "engagement." It implies different levels and kinds of actions, and usually it is also related to a metric. Interaction is the action of the engagement, and it means that there is a connection between a company and its customers, or between consumers and a brand, or between consumers and consumers with a brand in there somewhere. Higher interactive activities raise the engagement rate.

In digital marketing, the engagement rate is easy to measure, depending on the media used. Every social media has its classical metrics for the engagement. For example, in Facebook it is an overall measure of number of friends, likes, shares, and comments. Less often is measured the quality of the engagement (what if a brand has a high engagement rate, but with hundreds of complaints?) The sentiment analysis of the engagement is becoming more important and easier to monitor, thanks to new software that facilitates it. Remember though, these outcome measures are only the final result of a relationship marketing plan.

Customer engagement tactics are very common in the wine industry: we noted and attended a large variety of events for different targets of guests—competitions; marketing contests for consumers, students, and artists; games; visits and tours; wine tasting; wine and food pairings; concerts; and courses. The kind of action depends on the specific goal that must be realized with respect to different targets. Wineries have become interested in a few new target audiences, including younger generations and females. With younger customers, some of these marketing initiatives may be organized in both physical and digital spaces, or better yet, an integrated combination of both (e.g., a real-life tour of a property, with an interactive map and a treasure hunt to track on a mobile device; or a remote wine tasting on Skype, with the general manager and the customers on opposite sides of the ocean).

The main weakness of most engagement concepts we see is that their definition is built from the initiative or the media point of view: for an event, for a game, for Facebook, Twitter, and so on. To effectively measure engagement around a brand, we should adopt the concept of omniengagement as the overall measure of all of the interactions the customer had with multiple points of contact. The focal attention is put on the customer, not on the media. Ideally, customers drive it from the beginning; brands merely get invited to participate. But what "parties" can a winery be invited to?

Think of brand tribes. A brand tribe is a microculture. They are largely organically and voluntarily formed, and they harness individuals' unique connections with a brand. Find them. If you want invitations, be authentic, live with them, make them feel like they belong and connect with ones where you feel the same. Some of these tribes, microcultures, or communities form around food, wine, and places associated with wine. Engage, interact, learn, and provide back to the group. Do that and your brands will be adopted.

Brand Reputation and Main Influencers

Studying how the brand meaning is formed through different exposure to multiple sources of and forms of messages, a winery can recognize one or more influencers that impact the choices of desired consumers. Influencers, when they are not professionals, usually belong to a personal network (friends, relatives, other consumers), and when they are professionals they are playing a specific role with respect to wine (sommelier, expert blogger, trained salesperson). If a company can identify key influencers, in the wine business it is important to consider investing resources in connecting with them. It could be that a winery wishes to connect to influencers as a means for reaching potential immediate consumers. However, another reason to find influential people is to sense trends early enough to decide what to do about them. A winery may want to take advantage of a wine trend, or it may want to strengthen its defenses because it cannot do anything about taking advantage of the trend. These influencers might be "cool hunters," those people many consumers follow to be pointed to the next cool thing. They could be industry bloggers or simply interesting and constantly thinking consumers.

The point is twofold. First, identify if there are key influencers beyond the Robert Parkers of the wine world impacting your brand, category, or region. Second, if so, find them, learn about them, and engage when and if appropriate.

Don't be afraid. This may all sound a bit daunting, and a winery owner or brand manager may conclude that it is just too much work, takes too much time, will cost too much money, or is not needed. We would argue that the common thread underlying all of these is fear of trying something new. This is how the world flows now. It isn't going away; believe us. Start small or jump right in. But if you want to break out of the cluttered space, this is how you will do it.

Summary

This chapter covered the richness of storytelling, its various forms, and key elements of any good story. We explained the idea of cocreation and emphasized the importance of brand experiences, engagement, and influencers as we move toward brand narratives.

CHAPTER 11

Toward Communication 4.0

Case Vignette: Masi, Italy

Sandro Boscaini has been the president and managing director of Masi Agricola since 1978, and runs the company together with his daughter, Alessandra, and his son, Raffaele. The company remains strictly family-owned, but its management style is highly professional and open to international influences. Masi's company history is the history of Boscaini's family for seven generations. The name of the company derives from "Vaio dei Masi," a small valley in Valpolicella acquired by this family at the end of the eighteenth century. Now Masi, according to its website "has lands in the best terroir sites of the Venetian regions with vineyards and historic estates." In 1973, the company started a joint venture with the Conti Serego Alighieri family (descendants of the poet Dante) on their estates in Valpolicella (near Verona). More recently, the Conti Bossi Fedrigotti family (wine producers in Trentino-Alto Adige) started to collaborate with Masi. Both agreements are part of a project aiming to rediscover the farming and wine-making traditions of the nobility from the Venetian area. Masi's president believes in the "Veneto" (a region in the Venetian area) way of wine making that could be exported abroad, where there are good conditions for viticulture. So he launched a company in Argentina to produce a special wine brand with Argentinian wines made in the Veneto style.

The company also started the Masi Technical Group, with the aim to sustain innovation and research in full respect of traditions: it is a team of viticulture, enology, and marketing experts oriented toward exploring viticulture and modern wine-making techniques, in order to promote the rediscovery of traditional wine-making methods and native grapes of the Venetian territories. This group regularly collaborates with universities and other professional entities.

Through storytelling about one's company, stories which often involve family histories and draw a timeline of important decisions, wineries are able to describe themselves and start to transfer their image to customers through these stories. However, how are wineries trying to strive for differentiation through not only stories, but all of their communication efforts?

At the beginning of our interview, Mr. Boscaini wanted to explain the values that drive his company. He began with this: “We have to sell not a bottle of wine but our history, our tradition, our territory, our area.” He underlined the key role of the Boscaini family to interpret those factors: they want to be seen as a “family that really keeps the pleasure and the duty to transfer to the future the values of the past.” To them, innovation comes from the past because it is “recovering the ancient wine making method which is totally in line with Masi’s cultural way.” So, in Masi’s vision, tradition and history talk about food and wine. The Boscaini family has a “devotion to the uniqueness of the area” and wants “to be able to promote these peculiarities and to export” them all over the world. In its website, Masi defines itself as an “ambassador for its homeland all over the world.” Their communication approach is similar to few other leaders from different wine regions, although it is a bit different from the average in the global wine industry. The main communication message is not only focused on products, production, and history, but it is also enriched to present themselves as ambassadors of their land and passionate workers within a concept of a professional family. Wine is seen as a symbol of the territory, and tradition is supported by innovating with continuity, being “a new expression” in their land. In Sandro Boscaini’s opinion (he is locally considered an opinion leader), in order to survive on the global arena and deserve the leader position, the Old World (to which Masi belongs) must focus on emotions. In particular, he believes that “we have only one big competitive factor. It is an emotion that our wines bring to the consumer. It’s not only a pleasant wine to taste which everybody can have, but it’s a wine that can give an emotion.” Moreover, talking about main difficulties in Italy, he said that it is “a country that, more than the others, gives too much different expressions from different regions, because we have an incredible number of varieties selected during the century” in order to be “the proper varieties for the style of wine expected by that population.” This perception exists in companies from other countries as well, and also from ones in the same wine region, even if with a more practical approach: another local opinion leader said that the average consumer is becoming “more intelligent and sophisticated” and that today he or she “is less driven by emotion but is more practical.” Simultaneously, the same large company is trying to understand the correlation between “new emotions that can drive the customer to buy a wine, a special terroir, a special vineyard, a special brand . . . Consumers ask for a lot of information about wine and they want to be informed about specific wine characteristics. The Internet is the media to give the market these kinds of information. It is also a cost-effective communication method, the Internet could become very useful for research activities about products, markets and consumers."

Talking about communication and branding challenges, Masi's owner often emphasized the uniqueness of the wine industry: even for international grape varieties, it is important to compete much more on history and typical traditional wine-making methods than on price. For these reasons, Masi seeks specialized distributors and people who embrace the company's philosophy and passion, because as the president declared: "Our wines must be explained and their marketing is much more sophisticated." Distributors and importers who sell Masi's wine need a lot of education about the wine; a well-trained sales force that is good at educating end consumers though the distribution channel. It is "hard work because [there is] a mass of very good wine made with simple grapes that everybody knows it," like Cabernet Sauvignon, Merlot, and Chardonnay. In order to reduce these kinds of risks, the company put significant effort into communicating their philosophy to direct business customers, agents, importers, and distributors. It seems, however, that end users are likely becoming another important communication target for this company: "To explain even to the customer that goes once a week to a restaurant or to the supermarket . . . that that exotic wine he/she is buying comes from a specific area and it is made with grapes that nobody knew before, and it is made sometimes with a difficult wine making system." In many cases, wineries feel that they do not have complete control over the communication process to final consumers, and so they are realizing that the message should be sent directly, not only through intermediate actors: "What we need to say is very complex, so if media aren't used properly, there could be the risk that this message might not be understood . . . people who are unable to understand, make some confusion and they return with a question. If you don't answer it, you will be out."

This case vignette introduces this chapter on contemporary communication, and it has been chosen because in it we found many interesting themes: an ability and desire to communicate to different target audiences maintaining a stable value proposition, efforts in following innovative communication waves while at the same time respecting a traditional approach, and a storytelling style always oriented to enrich the family image with professionalism in all its anecdotes. This company is very active and social in communication, and recently it has evolved its image to a more modern style maintaining a historical touch and expertise. Note that the Masi communication mission is not to be sales oriented but to be ambassadors for a territory. Seeing this, we would like to give an alert to those professionals who still believe that wine is not a matter of communication.

Image 11.1 Research team and Mr. Boscaini, Masi.

Since the beginning of our research in 2009, we have seen evidence of changes and new trends in wine marketing and related communication. Many brands have changed their communication style and images slightly, some are becoming more "trendy and modern," while others are "classical sophisticated and elegant." (Recall the discussions about new branding trends in chapter ten). In our research, we also noticed a shift from a dominant push strategy (mainly to push the product through the distribution channel relying on trade marketing tactics) to a mixed push-pull strategy (continuing to invest in communication direct to business customers, and at the same time trying to have higher visibility and interaction with the final market). We also recorded a growing adoption of communication tactics using the Internet through websites and social media.

As we discussed in chapter four, a message should be conveyed in the right way to many different types of receivers, so that new communication targets need to be considered in a communication plan: there are a large variety of stakeholders and related profiles to whom a company should send its messages.

Communication 4.0

Communication is changing. Consumer and shopper habits are becoming more dynamic. New technologies are impacting how businesses communicate and are opening new possibilities. The old communication approach is

Image 11.2 Inno'vin Château Academy.

less credible compared to new below-the-line media (media with more of a niche focus, highly measureable feedback, and tailored messages). New subjects in the communication process are becoming powerful message senders.

Communication 4.0 as a new concept takes into consideration four directions of communication flow that should be part of a modern communication plan's development. It is important to distinguish this concept from Web 4.0.

The Web 1.0 is referenced as traditional web marketing, creating websites and other user-friendly opportunities, allowing only for unidirectional communication on the Internet. In this scenario, the average receiver is mainly a passive reader. The web is still the main media for international companies with global markets.

Web 2.0 started the social media marketing wave: it allows for bidirectional communication, allowing users to react, interact, and be active senders. In Web 2.0, social media engagement rate is a measure of online interaction (mainly measured as likes plus shares plus comments / number of posts). The integration index is an indicator of synergies between the web and all social media. The multichannel (integration) index is a concept that also includes offline points of contact in the evaluation. The convergence rate is able to measure the reciprocal impact between on- and offline advertising campaigns. The proliferation of messages and media is currently limiting brand visibility online, and the power is now in search engines. The immediate solution is that now SEO (search engine optimization) and SEM (search engine marketing) are important social media marketing skills.

Web 3.0 saw the introduction of artificial intelligence, also called semantic web, for search marketing, because new technologies are allowing us to create databases or big data about content, conversational behaviors, and user profiles—thanks to them it is possible to customize messages and services, applying E-CRM (electronic customer relationship management) tools.

Web 4.0 is the latest release, which is a concept still under definition. Some are referring to it as u-marketing, ubiquity marketing, which means to be always present with always connected users, everywhere. This connection is enabled by technology adopting a consumer centric view, and tailored interaction is automatically applied when needed and desired, thanks to user's data and predictive algorithms.

Communication 4.0 also includes the web and its versions, but it is more about communication flow rather than technology. In an evolved Company 4.0, digital marketing flows have four specific directions: Inside-Outside; Outside-Inside; Inside-Inside; Outside-Outside.[1] Below are outlined the communication levels needed to implement a Communication 4.0 model that can respect both Web 4.0 and Company 4.0 concepts.

- Unidirectional communication from the company to a general audience or to specific targets (can be at a corporate level, product category, or product) includes traditional advertising, and also social media profiles when they are executed without interaction (only brand posts and company messages). This Communication 1.0 level can be planned, and it is often oriented to inform about quality and details of the company. Updated brochures and flyers, integrated with the website and all other messages sent by the company, should be indicators of coherence, so that quality communication exists. This level includes classical Business-to-Clients, Business-to-Consumers (B2C), Business-to-Investors, and other key stakeholders, and also Business-to-General Audience to extend brand awareness.
- Bidirectional communication considers conversations and interactions, usually Consumers/Clients-to-Business (C2B), from Outside to Inside. Engagement is the new magic word in Communication 2.0. The main effects of a high engagement rate are stronger loyalty, possible ideas and collaboration to solve problems or improve projects, and participation in a company's operations and decisions. As a secondary result, precious information about those subjects could be used in future marketing decisions. If interaction actions are only set to receive likes and shares or other similar forms of feedback without content, there will be low use of media's potential. Usually social network sites are the best channels if used properly. A main fear in opening social media channels to a generic

audience is the potential for receiving critiques and negative comments. A common mistake in these cases is to block the page or delete the conversation: it has a multiplier effect on angry users who may think the company has something to hide and as a result, pour their anger into other places on the Internet against the blocker. Experts suggest that firms must trust in the community, that they will usually protect the company by responding and defending it. One particular trick used is to have an infiltrator or "mystery shopper" (customers or users whose real identity and purpose is generally not known by the community; they work as watchdogs for a company. This service may be offered by external vendors. Ethically they should not be employees who would need to lie to the community). Another technique is to try to cover the problem with a number of messages and posts in an attempt to accelerate its obsolescence. The right thing to do is to provide an honest detailed response quickly, not only for complaints, but also for positive feedback.

- Internal communication should be bidirectional, including communication within the company and communication to all critical actors within the supply chain (suppliers and other partners with whom there is a long-term partnership). This 3.0 level begins with internal interactions, Business-to-Employees (B2E), Employees-to-Business (E2B), Business-to-Business between real partners within a network. This kind of communication is tailored for specific goals and receivers. The entire internal network should be updated regularly, relying on it to share upcoming business goals, and inform about actual and future company decisions. The main effects are a higher participation and commitment of all members. Adopting a Communication 3.0 model also means that every employee or partner becomes an ambassador for the company or the network and supports corporate messages, thereby enhancing the system. LinkedIn is a social media network between professionals. It is an instrument to simplify network interactions, and it is also a virtual place to find updated information about companies and projects through professionals. LinkedIn groups are forms of professional communities. Through their image, professionals spread their companies' image (E2C, Employee-to-Customers).
- The last level, Communication 4.0, considers external word-of-mouth: what others are saying about a specific wine country, a product category, a company, or a brand. What are they talking about? Businesses want to know. Consumer-to-Consumer (C2C) conversations (and markets) are increasingly becoming a strategic source of information. Advanced communication plans analyze these dialogue mechanisms and content to discover opinion leaders, trends, hot topics, new needs and desires,

and new consumption styles. These kinds of interactions can be integrated if a company provides the tools for others to interact and then disappears from any conversation: the company is only a supporter, an enabler of interaction. A great need for sharing and searching for information exists around wine, and it has been fulfilled by wine communities, wine enthusiasts, wine lovers, sommeliers, and experts who created dedicated forums and apps before companies did. There was a significant market need for these services. Wine companies did not react quickly enough! Tools and solutions in this environment should be easy to use, fast, complete, precise, and fun, and offer value for every user to use it and stimulate his contribution.

Toward Communication 4.0 is not an abstract concept. As described here, it starts and ends with operational decisions. We are dealing with a different subject, with different goals, that is a new source of value and is now integrated into communication practice: successful communication cannot leave these emerging modes of communication out anymore because markets demand them.

Conversational Models

The main principles of good communication require us to respect the five W's: Why, Who, What (and How), Where, and When. Setting primary communication goals (Why) is the first decision to take. They are derived from marketing objectives, connected to the strategic direction. Specific communication goals then should be adapted to different targets and timing requirements. In short, goals can be connected with the four A's of advertising and communication: Awareness, Attitude, Action (first contact/trial/purchase), and Action Two (from a second purchase to different levels of loyalty). The second step is to define communication targets (Who), and they may be different from the final user. Each target may have a specific goal, depending on his level of awareness and experience with the brand or the company. Then a message (What) should be defined for those targets to reach a specific goal. This is the real core of the process, and it concerns what the company wants to say, to whom, and why. Then, after defining the media selection (Where) and its geographic borders, the message is coded into a visual, verbal phrase or experience (How). Media are then scheduled in a media plan, timing the message using different techniques (burst, with high frequency in a short period; or spreading, with regular frequency for a long period).

Respecting these principles, the last frontier in communication is to apply conversational models. Senders (who start the communication flow) are not only companies—as we discussed above, there are many messages about wine and wineries sent from different subjects in a word-of-mouth mode by communities, in networks, or by individuals. Receivers (targets or public audiences) are not always passive; it means that relevant feedback is measurable through their actions. The majority of conversations around wine, or a specific wine region, wine company, or even brand are often produced by subjects other than the company itself. It means that the unidirectional traditional communication model is not the main source of information for shoppers, drinkers, customers, partners, or investors. Moreover, external sources are not always easy to monitor and control. The Internet and its tools enable companies to track actions and conversations online, and for this reason these conversations are becoming a precious and unique source of information and analysis.

Although, we noted in our global research that there are very few companies able and actually willing to analyze online metrics and make decisions based on them. Readers who are unaware will be pleased to learn that there are convenient software packages and services to help managers in these tasks, so we predict a rapid adoption of these analysis tools, even in the wine industry.

In any scenario, from a microcompany that is not applying any marketing concepts, to large and marketing-structured ones, conversational models should be understood and adopted. They are helpful to optimize communication efforts and respect conversation types and typicality. Since conversations are bidirectional by definition, the public response is traceable and measurable. These kinds of interactions may be conducted in person, physically, or mediated by an instrument. In a Web 4.0 scenario, technology can automatically start conversations or react to others, even if their decisions are defined by programmers. Conversations could then flow between individuals alone, or in groups/networks. Physical, virtual, individual, or in-network, are four options to define a conversational level (see Figure 11.1). Each of them has typical benefits and limitations or stoppers. All these options may be found in multiple conversational models.

Conversational models include One-to-Many, Many-to-One, Many-to-Many, One-to-One, and One-by-One (see Figure 11.1).

The One-to-Many model is essentially unidirectional. Messages are sent from one source. The first conversational model is widespread, even if it is not always well managed. The main feedback from receivers is a kind of basic response to those messages, and the response may not always be a direct reaction; sometimes it is measurable in terms of knowledge about or attitude toward a wine region, a country, a category, a wine style, or a brand. Managers would always like to measure the results of their marketing efforts in

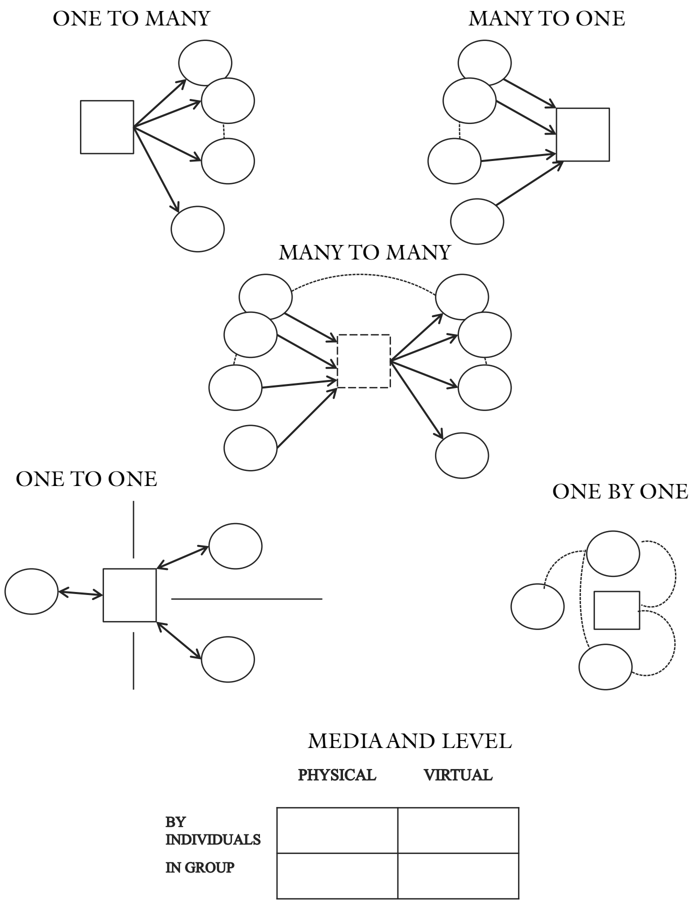


Figure 11.1 Conversational levels.

terms of sales lift, even though there are other intermediate stages to pass through first: company consciousness and awareness, positive attitude, wine appreciation, brand preference, commitment, purchase intention, purchase, and loyalty. Receivers may be new to the company or so enthusiastic as to be their ambassadors. Currently, new media—blogs and microblogs—are the media tools of choice for this model. It is evident that one standard message is not the right way to deal with customers at different stages of the purchase-intent process, or to deal with different market segments. New media are able to differentiate messages for specific segments. This conversational model needs standard communication skills, and recognizes also that receivers can react and interact between themselves, cutting the company out of the "conversation." For example, in a couple of cases, wineries were online with their websites (not updated as they declared to us) and were sending messages about their history, production, and wines (old news, we noticed). Information was provided in the local language only (fortunately, now thanks to online translators, a smart user can translate them into English or other languages). Was this state of affairs a specific choice by management? One owner confessed that they do not have time to take care of the Internet, advertising, or even brochures. Our first perception was that their market was only local. It was not true: they managed sales internationally and dealt with foreign distributors. They also had a Facebook profile, with a few posts about awards or events. They were using social media just to send out some general information about the company—"just to be there"—without interaction with their readers. They could measure their communication efforts (in reach, total amount of audience, number of fans, number of visits per every page, average time of reading, and so on) but they did not do any of it. Thus, their conversations are mainly unidirectional communication, and, we should say, not well conducted compared to who they are as a winery and what we know they have to say. This is a lost opportunity. They did not seem aware of the power for their brand of effective management of this form of communication.

As another example, but of a positive One-to-Many model, comes from a very active company: their communication is rich, interesting, and they send messages frequently. They have a large number of contacts reading their messages and often liking or sharing them. Conversations are mainly initiated by the company, with positive feedback by their receivers. A One-to-Many model is preferred when a company is very active, has many things to say, and prefers to keep the lead in conversations underlining a clear value proposition. Receivers can respond to senders' inputs but cannot initiate a public conversation with the company in its space.

Many-to-One is an opposite conversational model; it is mainly based on incoming messages, and is mainly unidirectional from outside the winery. Users, customers, or curious parties may contact the company by sending messages, asking questions, requesting services, complaining, offering suggestions, or simply sharing experiences. This model can happen naturally or be provoked by the company. Content of incoming conversations can be positive, negative, or neutral.

A call center is the best example to discuss. Call centers were widely used some years ago. They were the best solution to redirect many requests to one point of contact within the firm. The main purpose was to centralize incoming calls, with one "voice" giving the best response and service. In many cases this service was and continues to be outsourced, and its scope has changed. It has been adapted to the purpose of promotion, to push customers to buy products or services. Every media could be Many-to-One. Also new media can be configured to call for participation and interaction by using a variety of motivations. Many people, in a crowd-sourcing system, react to stimuli like that individually or in groups, and their contribution can represent significant value to managers.

Contest marketing is often used now to get new ideas and solutions from partners, customers, consumers, and experts thanks to the Many-to-One conversational model. Successful online contests are frequently now based on Twitter—with special hashtags (#) created for it—and may be launched during or before an event, as happened at Vinitaly 2015 in Verona. This conversational model stimulates interaction around a topic or a brand, and gives significant notoriety to the subject of the conversation immediately. An internal communication policy should define how frequently and when it is best to react, offer a response, or appreciation (thanks), or solve a problem, without being domineering.

Many-to-Many is the conversational model where many subject contribute to the discussion, and benefit from others. They can be many single individuals interacting in a group or a network, some being more active than others, who belong to a community and interact physically and/or virtually. Forums, wikis, and social media have many writers and readers; their overall content is a sum of many contributions. These within-network conversations can be initiated by fans, and can be specialized or general in nature. For example, they can be on cooking or tourism, and discussions can revolve around a specific wine or winery. This model can be enabled by a company that provides a place (physical or virtual) where people can interact and share opinions or experiences, while not intruding into their conversations unless

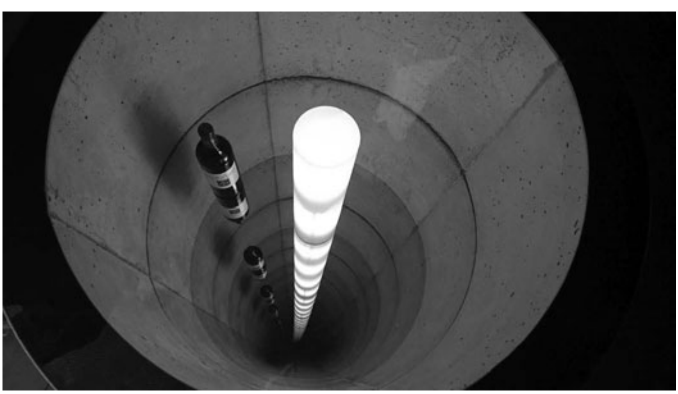


Image 11.3 Smith Haut Lafitte art.

necessary. Contemporary tools widely used for this scope are applications (apps). We discuss them later in this chapter.

Thanks to new technologies, sharing habits have changed. Available and freely shared are many kinds of information useful for evaluations, comments, wine rankings, wine selections, wine-tourist destinations, wine pairings, and culture. The immense value of this conversational model is confirmed by its speed and degree of diffusion.

One-to-One is a classical private talk, a single relationship between individuals. It may be personal/physical or mediated by telephone, postal mail, email, SMS, Skype, Messenger, Viber, WhatsApp, social media messaging systems, apps, or any other tool enabling direct communication. Direct contact relationships such as these, in all of the cases we explored, have always been presented to us as successful, with many owners and managers describing a large number of direct visits, telephone calls, emails, Skype calls, and dinners (which, when engaged in with high frequency, seem to have a direct effect, as confirmed by a German managing director gasping while touching his belly). Business travel is an important and significant component of a winery's budget, as are lodging and hosting expenses, all associated with maintaining relationships. Meeting face-to-face seems to be valued as the best and most applied communication style wineries use with clients. Many producers struggle to sell their image correctly through brochures and digital media because they feel that their company, location, and style "should be seen to be understood."

One-by-One is a conversation within a network, taking care of personal communication benefits. In this way, there is a sum of single relationships that are spread outside to others. A conversation between two is open to others, and this allows for reduction of repetition in service and offers a solution or a certain kind of information to a wider audience, besides the original one. Open fan clubs always apply this model. A question or a message is posted to the group by a fan, then another fan gives his answer. This conversation is not private and contributes with its content to the value of the network. In this model, a company member can be accepted into a group, like a regular member. Brand-supported forums, groups, and clubs are the official and sponsored version of this conversational model, with slight differences in content and conversational atmosphere depending on the moderator.

The Role of Social Media in Today's Wine Marketing

Social media marketing is growing in every industry. Social media are media (a long dynamic list of possibilities), and as such, are instruments to be selected when necessary, with full consideration of their strengths and weaknesses.

Wine is social by definition, and consumers, wine lovers, wine enthusiasts, experts, foodies, tourists, and their communities have already widely adopted social media for many purposes. Just to verify this statement, type a wine related keyword into any search engine online and observe how you are overwhelmed by links.

Some countries are more culturally advanced in new media use, and as a consequence, companies located in those environments reflect higher adoption rates. Personal meetings, emails, and new audio/video calling systems that are professionally replacing telephone calls and postal mail, are still considered the most important communication channels everywhere, but they are not enough.

A global research study presented at the 2014 Academy of Wine Business Research conference showed that the adoption of social media as a main communication channel by wineries is a rising trend globally, with countries like South Africa (92 percent), the United States (87 percent), and Canada (80 percent) leading, with Austria (44 percent), Hungary (35 percent) and Germany (34 percent) serving as slower followers. Italy, France, Australia, and New Zealand are all around 65 percent.[2] The main media in use is Facebook, followed by Twitter for microblogging (except for Austria and Germany), video sharing (YouTube), and image sharing (Pinterest and Instagram). It is interesting to note that wine producers are blog readers more than they are blog writers.

We explored social media use by companies in our sample, and selected a subsample of 19 best social media adopters (6 from the Napa Valley, 3 from Australia's Margaret River, 3 from Washington, 1 from Australia's Barossa Valley, 1 from New Zealand, 2 from Tuscany in Italy, 2 from Veneto in Italy, and 1 from Slovenia). We analyzed their social media institutional profiles: Facebook (fan, visits, and likes), Twitter (followers, tweets, and retweets), Instagram (followers), Yelp (referrals), Foursquare (visitors, visits, votes), TripAdvisor (recensions), Google page rank, Alexa rank, backlinks, and bounce rate. Twelve of these companies' activities in social media have been deeply analyzed, evaluating social media and website integration, frequency and contents of messages, video, and audio, and visual and verbal differences between media. The main results show a very strong coherence between different media for many companies, and evidence of multiplying and spreading the same message with few changes in different media. In these cases the synergy with reciprocal links is evident. In some cases a website seems to be the main center to which other media are referring. In others, social media are used as news feeders and are cited with links into the website. Only a few cases were separating media for different products (as independent brands) without any connection. In terms of visual styles, there were two main groups: those people who were fans of black backgrounds and those who preferred white backgrounds. The most common visuals on websites were company buildings, landscapes and local nature, grapes, bottles of wine, production moments, cellars or families portraits, while in social media there were more depictions of groups, events, and wine launches in artistic and fun images. There are business service providers available for making these kinds of analyses and more.

The Winery Social Index, for example, helps to assess the social media health of a winery with daily updates. It provides easy-to-read classification of top social media wineries. Managers need to be acculturated in reading and using social media analytics since they may find hundreds of metrics without the ability to evaluate them or measure performance of a social media strategy. For example, knowing scores of a top winery in number of Facebook fans (a South Australian well-known brand has more than 1 million) is not a benchmark if the company to which one wishes to compare has a different positioning and does not target a final mass market. The same brand is not performing well in all social media, having selected only one for his communication, so that its overall evaluation is not so high in the list. Another top social media brand (as of this writing, 222,000 users liked their profile, and 21,000 tweets appeared about it in a recent period), is a product of a North Carolina winery that is also a magical historic location and tourist attraction. This case is also unique and not comparable to other wineries that have wine as core business, because its primary purpose is not as a winery.

However, results are not so different in our social media research (October 2014) comparing 19 best-performing brands in social media: the top on Facebook fan base is an Italian company from Tuscany (108,500 fans); the top on Twitter followers is a winery from Napa Valley, United States (22,200 followers), and the same brand is top also on Instagram followers, Yelp referrals, Foursquare visitors, and TripAdvisor. As marketing experts, we need to critique these kinds of evaluations. These numbers indicate the general audience, not the affinity with the target or the quality of interactions or content of communication. Other indicators are more important to evaluate social media performance.

Social media has been widely integrated with analytics, accompanied by clear and simple reports. More advanced analysts can offer services and information important for conducting a social media strategy. For example, Maxfone is an Italian information and communication technology company that specializes in the wine industry. They have developed different products and all-inclusive solutions for brands to be able to evaluate actual positioning and strategy performance, train managers within a social media academy, and provide Web 3.0 semantic tools to dynamically align communication tactics to market tendencies and preferences. In particular, with their proprietary social meter analysis service, they developed live streaming, an observatory to discover in real time what people on social media are saying about events, daily topics, brands, and products through tag monitoring (sentence or keywords). This tool can capture conversations over a large number of carefully selected, evaluated, and certified web sources. Their main suggestion for a successful social media campaign is "Listen, understand, talk." Some wineries in our sample are using this or similar services, and as a result their social media behavior is more professional and successful. Unfortunately, not all wineries have marketing experts to make rational decisions, even if some of them, with younger managers, are trying to.

In our interviews, a young German sales manager and winemaker, talking about social media, commented: "We started with social media when I arrived in this company, so we started to have a Facebook page, Twitter page, Instagram, Pinterest . . . We post various things: when it is a nice atmosphere in the courtyard and a lot of people are here, we post a friendly image with phrases like 'come by, enjoy the sun.' Or when we are bottling a new vintage we talk about it, same when we are on a fair or a presentation in the city, or for weddings, parties, barbeque, concerts for younger people in our winery, or get some impressions from our importers when they have wines with their dinner. Asian people interact when they have dinner with their clients, they post their food with our bottles and then mention me on . . . Some retailers connect for fun just to ask for pictures and see growing the vine they adopted . . . We are not yet professional, so we have no experience marketing. That is still our problem, that someone is in charge of marketing who is not really the expert in marketing. So that is why we do not have any social media plan for the year, that is our aim, what we want to reach. Now it is doing day by day."

This example represents a midway point of sophistication in what we found through wineries on paths toward social media evolution. At the zero point were social media skeptics. The excellent were professional marketing experts and others achieving excellent results.

Do all wineries need to adopt a social media strategy? Our suggestion is no, of course. We would suggest each winery evaluate its presence online and the amount of discussion occurring around their brands and products on the Internet or in social media. In our past research measuring the top 50 global brands from different industries (top both in brand equity and social media reputation index), we found that the best companies have a social noise level that is at least 20 percent of the total web noise. Having high visibility online does not necessarily mean that the brand is also social. A social/web ratio can help steer practitioners to consider whether they would benefit from monitoring social network conversations. It may suggest to simply enhance web noise or to invest more in specific media in order to become more social if the strategy requires it.[3]

The new e-context is dynamic and complex: websites, mobile apps, tools, and platforms are continuously changing in number, potentiality, and usability. If a social media is becoming dominant for a brand, then sentiment and content analysis on it are suggested. These methods measure the quality of the attitude (sentiment analysis is generally defined as automatic analysis of evaluative texts, aiming to label a message as positive, negative, or neutral), and content of conversations (professional content analysis has advanced techniques to classify content).[4] To be honest, during our interviews, we never found this level of expertise.

Integration and Convergence of Media

Modern communication, as we discussed, requires analysis during three fundamental moments: before, during, and after. Before launching a message or promotion widely, every initiative should be tested and evaluated in different media. Tracking studies are continuous monitoring analyses during the communication period. Posttest analyses include assessment of all of the effects that a communication can solicit. A communication plan usually includes more than one media. A common rule is to adopt a homogeneous conversational approach and message coding. This technique helps repetitions: if a message is repeated frequently by multiple sources, it has more probability to be recognized and remembered. Another technique is to diversify and adapt messages and styles to the media. Main symbols and colors should keep the brand style and its value proposition. Adapting strategies and executing them differently in multiple media helps to exploit their full potential.[5] Integration between different media can be obtained while respecting main communication goals and finding synergies between different media, linking them in some ways, to let the receiver be aware of the presence of other sources of information. It is common on many wineries' websites to see a list of icons for social media links where they are active. Clicking on one should connect to a page that follows the storytelling of the web page where the link was found. In the opposite direction, from a social network app to the web or to other social media, we sometimes saw dramatic changes in style and content (e.g., from a very institutional and static website to a friendly and active Facebook page). This inconsistency ought to be avoided.

Media convergence is a tactic that suggests the connection of offline and online moments of contact. Convergence is a synergy between physical meeting points and technological ones. For example, a coupon for a bottle of wine can be offered to Facebook fans for them to spend in a regular shop;

or the opposite, for example, a label guides a user to a website or an app. Geotagging software offers the possibility of identifying people through their mobile devices who are nearby specific locations and offering them special discounts on specific products and in shops or restaurants nearby. Foursquare and Groupon are widely using this opportunity to offer the best off- and online experience. Beyond that will be widespread adoption of near field communication technology that guides shoppers from aisle to aisle within stores by combining "knowledge" of where the shopper is in the store through her mobile device with brand-specific communication when she is near that brand in the store.

New Technologies for Wine Marketing

A new wave of changes in technologies and behaviors has driven many industries to reconsider their communication strategies and budgets, the wine industry is included even if it is following the same trend a bit more slowly. The gap we suspect is mainly because of industry culture, in particular with a large majority of small to medium-sized companies that are product/production oriented and invest mainly in enology or wine-making know-how, there exists a belief that marketing is costly and time consuming. Marketing experts are not yet considered as strategic in this industry by many, at least not as compared to other consumer goods industries. In any case, a successful wine company must deal with communication decisions and cannot stop these new challenging situations.

Contemporary communication must deal, in a global competitive environment, with new technologies and their impact on behaviors.

- The number of new social media and new apps (both a company's and a consumer's) is growing, and has very fast turnover. Winery innovators should always be testing new ways to interact with their customers, trying new solutions before all of the others. A high risk of media obsolescence is there, but some social media and app life cycles are long enough to generate some value. Apps and social media could fulfill prospective and current customer information needs about a company, a specific product, or a wine region; they can support alternative evaluations during the purchasing process, making comparisons between products easier as well; they can support social rankings, sharing wine evaluations between customers so that consumers do not have opinions only from experts; they could enrich a consumer's experience, with food pairing tips, wine tasting suggestions, and even immediate one-to-one communication.

- User-generated-content media allows users to gain control and power in communication, potentially multiplying an electronic word-of-mouth, now free from time and geographic borders. Crowd sourcing (a large number of users collaborating to create content for a specific goal) and crowd funding (microinvestments in projects made by a large number of donors) are completely changing B2C (Business-to-Consumer) and C2C (Consumer-to-Consumer) goals and content of interactions;
- Big Data are now available, and new tools are allowing sophisticated analysis of behaviors and preferences, and new data-crawling data-mining solutions. Specialized service providers are able to offer companies real-time feedback about their wines in specific markets. It is also easier to evaluate brands' and companies' share-of-voice (as a measure of the amount of online conversation around a brand/company as compared to the total amount on the same product category); it is also now faster than ever to highlight new trends in conversations and enable faster reactions. Thanks to social network analysis, it is now possible to identify communication networks and critical nodes, social opinion leaders, trendsetters, and influencers.
- E-commerce, not yet so evolved in the wine industry, is changing to m-commerce (e-commerce used through mobile devices) and to social commerce (electronic commerce through social media, where f-commerce is specific for Facebook, for example). NFC (near field communication) technology, more widely inserted into smartphones, is easily enabling secure payments, and also wine authentication, helping security and counterfeit problems. This new technology is already allowing customer recognition, and can personalize and simplify their experience with the brand during a purchase or consumption situation.

Other related technologies or solutions are now easily available. For example, QR codes (quick response codes to be read by mobile devices equipped with a barcode reader) are links to offer a faster connection to a web page, a video, or a game, and new generations' QR codes are surprisingly now customizable and can be hidden under logos or images; smart labels (smart tags, RFID tags, radio frequency identification) are advanced bar codes with a technology that could be perfect both for logistics purposes, package shipping, shelf optimization, and also for customer communication. The list of new possibilities in communication is vast. Futuristic innovators will soon use OLED screens to create dynamic innovative labels. Augmented reality (AR) has been adopted for innovative 3D catalogues, new ambient advertising, and AR apps linked with a QR code on label in the wine industry—for an example, see ARwine, an augmented reality sommelier app from Italy.

Image 11.4 QR code.

Marketing is a continuous source of creativity in itself, and some well-known tactics for experts may be a new idea for followers.

- *Viral marketing* is useful to stimulate a viral effect in word-of-mouth, or video/visual sharing in social media, through particular stimuli.
- *Guerrilla marketing* is nontraditional advertising executed during unexpected moments and places, to surprise and be remembered.
- *Ambient marketing* places messages, brands, and products into the real life, and capture a consumer's attention to stimulate the cognitive process.
- *Tribal marketing* is the European response to classic marketing, in which marketing targets are tribes and communities, not isolated individuals,

that may be considered niches or special groups, where subjects are not homogeneous in profiles but in needs, aspirations, or passions.
- *Omni-channel marketing* carefully enhances coherence between different points of contact, media, points of sale, places of consumption, leisure events, company museums, etc.

Many of these new strategies need to be planned and managed and are not always so expensive.

It is evident that the global wine industry is on average not so innovative in communication, although we found examples for most of the innovations described above. When we started this research, we discovered wineries without any website or ones that were very basic, less than one-quarter were adopting e-commerce, and very few were starting to test social media. Above-the-line advertising (e.g., regular advertising on television, newspaper, magazines, radio, outdoors) was not widely used, and when it was, it was not so creative. Lack of resources, knowledge, and capabilities have been reported as the primary constraints in following those new trends. The most repeated sentences we heard when we asked about the reasons why marketing actions were not implemented, were "We don't have time," "Marketing is not important to sell our wine," "We won't see effects on sales."

Nowadays, we are observing significant changes and are glad to recognize more innovative efforts in wineries' communications. Websites are more professional, more dynamic and oriented toward different audiences, often enriched with newsletters and forums (some also with RSS feeds to highlight news), and are linked/integrated with social media (more than one, usually).

Hundreds of new apps about wine are available online to help and engage customers with a variety of services and offer stimuli: they can support wine selection, wine search, track personal consumptions, provide tasting notes and ratings, read official classifications and rankings, enable the sharing of a drinking or tasting experience, offer wine guides and recommendations, assist in the purchasing of wine and more (see for example, Vivino, Cellar tracker, Cor.kz, My Wine Journal, Delectable– Scan & Rate, Drync Wine Scanner—Delivery, Cockbin for Wine, Wine searcher, Hello Vino Wine Assistant, Wine Enthusiast Tasting Guide, Wiki Wine, Winetracker, Just Wine, Wine notes, Wine Food Matcher, Wine events).

Summary

We suspect that this chapter was rather technical and dense with information for many of you. The sheer volume of information here should convince you that a great deal of effort is being expended in industries to develop tools to actually help wineries be more effective in connecting with and selling to customers. These applications will make a winery's job easier, not more difficult. When mastered, they will reduce marketing and distribution costs, not increase them.

In the next chapter, we return to something more traditional for the wine industry—professional selling. But here too, you will read how despite it being the predominant marketing tool used in the wine industry, many wineries could take their game up a notch or more to improve the effectiveness of their selling efforts.

CHAPTER 12

Selling

Case Vignette: Schloss Vollrads, Germany

"Ninety percent of our exports are done by ourselves without an agency. I am in close contact with our importers worldwide." This simple statement gets at the heart of what our sales, marketing, and operations contact at Schloss Vollrads discussed with us. In fact, she is probably so solid at managing the sales side in part because she is a fourth-generation winemaker in her family. It was clear to us that her diverse expertise, which also included wine presentations at the wine shop, export management, marketing, and vineyard management, gave her knowledge that is invaluable in creating meaningful domestic and international trade relationships.

Schloss Vollrads certainly has award-winning wines and innovations, but they clearly know how to execute relationship-selling strategies and tactics in part by working in "close contact with importers worldwide." Forty distributors provide the winery access to retailers and restaurants within Germany and internationally. Approximately 30 percent of Schloss Vollrads' sales are international, with the United States and Asia representing the majority shares, and include China, Japan, Taiwan, Korea, Vietnam, Malaysia, and key cities such as Manila and Hong Kong. Twenty percent of sales are direct to private customers from the winery. Despite the option of selling directly to restaurants and even having solid valuable relationships with some mid-to-high-end ones, she more often targets wholesalers due in part to the financial challenges of working with restaurants and the requirement to travel constantly throughout Germany to serve them well. Knowing your strengths and leveraging them with the right customers is critical in sales.

Schloss Vollrads can claim to be one of the oldest wine estates in the world having celebrated their eight-hundred-year anniversary in 2011. They strive to stand for "tradition, continuity, trust and long-term partnerships." Not only does the product represent consistent, high-quality clear and pure

Riesling, but their word represents rapid and effective response to customers. The trusting partnerships are part of a company philosophy that dates back years, and includes relationships with suppliers and creditors whose trust helped Schloss Vollrads get through some difficult financial times in the 1990s. Through that period, the wines being produced changed. Through significant investment in time, research with local universities, equipment and expertise, the winery refocused on noble and fruity sweet wines, working their way to become one of the top well-known Riesling producers worldwide. Great wines do not become known and sold worldwide on their own; they require solid selling skills to build the right relationships that over time bear fruit.

Schloss Vollrads has a great story to tell as they continue to improve the quality of their wines through production-process improvements and sustainability initiatives that include significant solar power usage, LED lamps, carbon-footprint reduction in the vineyards, and expansion of organic operations. However, these initiatives are not a central part of their marketing story; they are ways of doing business, not a marketing tool, we were told. Part of their story also includes being highly innovative in numerous areas such as packaging, bottling technology, and modernizing their marketing. These are all great aspects to share with customers along with the estate feel of the grounds and restaurant. They bring their distributors in every two years for an intense immersion experience so that they can "transfer this feeling" that they have at the winery. They travel throughout Germany and interact closely with distributors at trade fairs and events to maintain close partnerships. But it was clear that the marketing and sales manager spent more time listening to customers than telling stories, as she constantly looked for alignment between Schloss Vollrads' capabilities and customers' needs. They probably can sense an alignment when they see her passion for the wine and the winery, a passion that compels her to taste the grapes in the vineyard daily during harvest, spend time with the winemaker daily, and taste weekly. Passion and diverse expertise like hers sells.

This Thing Called Sales

A chapter on selling? Isn't everything we have been discussing about selling wine? Yes—and not exactly. In a general sense, yes, all of marketing has selling products as one of its goals. However, in most organizations, especially the larger ones, sales and marketing are different disciplines and different parts of the organization. This is true in the larger wine producers as well. In medium-sized wineries, there may be a distinct marketing staff person and a few people who "sell," including the owner. In small boutique wineries, often the owner and maybe a partner do it all. But it helps to think in detail about what selling means. Knowing how serious professionals strategize and tactically execute the selling function can be powerful. This is because in a very significant way, interpersonal selling serves as the predominant means of marketing for many wineries.

Selling refers to the interpersonal, face-to-face aspect of marketing. It happens everywhere in the wine industry, but rarely do we see managers formally trained in how to do it correctly. In our research, we found fine examples of humble yet sophisticated sales professionals, including many owners themselves. In this chapter we share with you both the strategic way of thinking about selling and the tactics of executing sales interactions.

Strategic Thinking

One way to sell is to simply attempt to persuade anyone who wanders into your cellar door to try, enjoy, and purchase your wine. Although a common approach for some smaller wineries, this would be how one does *not* think strategically. Strategy is about having a plan and knowing where you wish to go and the various resources and capabilities to be leveraged to get there.

One approach is to begin with the end-use consumers in mind. In this approach, a winery ought to know the consumers it is targeting, those who prefer wines from one's region, wines of the varietal form the winery produces, and ideally those who prefer one's own wines specifically. Where are these consumers? Where and how do they purchase their wine? The goal is to get your wine in front of them, obviously, and make it easy for them to find and buy it. This requires working with and through intermediaries from retailers and restaurants on back through importers and distributors. Therefore, it is rather obvious and critical that importers and distributors be selected who have access to desired consumer and shopper markets. In fact, beyond having access, they should have superior access, superior market share as compared to their competitors. A winery should select the very best intermediaries it can work with, not merely the most friendly ones who love the wine. Don't mistake us, it helps if the distributor likes your wine, but this is not a prerequisite for selling it effectively. What is essential is a belief in the quality and value of your wine and an understanding of your winery's story in order to convey it persuasively.

Strategy involves being aware of market trends and stability areas globally, and how those trends and consistent buying behaviors create opportunities and threats for one's wines. Distribution systems today are well honed. It may take time to ship product halfway around the world, but the means for doing so are well known and relatively straightforward if a winery has the desire. But markets should be selected with a purpose—that is, because they fit a plan for the organization. One strategy could be to enter and grow within markets that have already proven to have strong demand for one's type of wine. In this situation, numerous competitors will exist. Therefore, a strategy must include evaluation of competitors as well as customers, including predictions about what they are likely to do in reaction to any of your own strategies. An alternative strategy is to identify emerging markets for your wine. In this situation, there are fewer competitors, but the selling involves a great deal of education.

Most wineries pick up on which markets to enter, expand, or exit in part through interactions with other winery owners—some competitors, some not—at trade fairs or in associations or clusters to which they belong. Other ways to help decide what markets are a good fit and the best strategies for selling within them include reading blogs, hiring consultants (of which there are many), and conducting primary research. A leader ought to think about his growth strategies given his winery's production style and strategy and then strategically select markets, intermediaries, and customers. Even small-scale wineries can be quite international in their distribution, but they are very targeted. Being international does not necessitate being widely available in those markets. And even though most wineries sell initially and often primarily within their domestic markets, we met very successful ones who sold 70 percent of their wine internationally. This can easily be the case if the wines are super premium wines where the demand is low within the domestic markets yet expanding in major international metropolitan areas such as Singapore, Shanghai, New York, and London.

In a typical consumer goods producer, the sales team or account managers are a distinctly different organization separate from brand management. This is in part because the skills and activities involved are different even if interconnected. The sales team leverages the communication and support materials created by the brand teams in order to build relationships and negotiate contracts. It helps to know what precisely sales teams do.

The Tactical Side of Selling

Professional selling has been around for a very long time and has been formally researched for many decades. The basic tactics can be boiled down to a few key concepts. As we cover these, remember that at the start and at the end, it is all about making connections with people and building business relationships. In some cases with long-term connections, these may even turn into close friendships. However, the goal is to develop and maintain long-term productive business relationships and do so ethically, not merely make a sale.

The basic tactics of selling can categorized this way:

- prospecting and qualifying potential customers
- "the approach" of a presentation
- asking questions and listening
- presenting attributes, benefits, and sacrifices
- handling objections
- closing
- following up

Prospecting and Qualifying Potential Customers

Prospecting refers to finding potential customers. This occurs in the wine trade in terms of selecting distributors, and importers if international business is the focus. It also includes identifying retailers and restaurants when a winery works directly with them. Not all customers are created equal, so the saying goes. Each winery must create its own list of criteria for selecting business connections. This list typically includes these criteria:

- access to and relationships with downstream customers
- experience selling the varietals in question and even past experience with the winery
- resources available to provide one's wines the needed attention
- willingness and desire to provide the wines the amount of attention the winery desires
- alignment of business objectives
- credit worthiness
- ease of conducting business together

Ensuring that a potential connection or customer is qualified to work with the winery takes place initially through secondary data but mostly through interpersonal interactions over several meetings. Much of selling involves selling the meetings themselves.

The Approach

This may seem a bit contrived for the wine industry as we have seen it, but most guidance for conducting sales meetings involves a piece of the meeting known as the approach. The approach is usually the first few seconds or minutes of a sales call that grabs the audience's attention. It can be visual, or it can be comments someone makes. This can take many forms. It can be

SCHLOSS
VOLLRADS
ESTATE

Wine Fact Sheet

2013 SCHLOSS VOLLRADS Estate Riesling Kabinett dry

Art.:	1322	
Quality Level:	Kabinett	
Grape Variety:	100% Riesling	
Analysis:	Alcohol	12,0 % vol.
	Residual Sugar	8,4 g/l
	Total Acid:	8,2 g/l
Winemaker:	Dr. Rowald Hepp and team	
Terroir:	Mild and gentle climate. The soil is a mixture of weathered slate, loam, clay and loess. The vineyards have a very favourable aspect, with good exposure to the sun. The Rhine river is on one side of the vineyards and the Taunus mountain range on the other. The mountains protect the vines from harsh winter temperatures.	
Harvest:	The ripening season was nearly two weeks later then in a common year. Harvest started on 14th of October. This year's very low yield of just 50hl/ha (30% less than in the previous year) allowed us to cellar a rich and vigorous Riesling with a strong backbone built of acidity and high extract!	
Vinification:	The long and gentle fermentation takes place at low temperatures in stainless steel tanks. The fresh and fruity acidity of 8.2 g/l is nicely balanced with the natural residual sugar of 8.4 g/l. With an alcohol content of 12.0 %vol. this is a perfect example of our classic Kabinett style.	
Tasting Note:	Fruity and mineral taste, very charming. An invitation for the second or third sip, just dry with a gorgeous nose of peaches and fresh linen drying in the sun.	
Serving Suggestions:	Carpaccio of beef or tuna, ham, Cesar salad or rich sandwiches, grilled or roasted fish dishes.	
Cellaring potential:	The wine tastes beautiful right after release, but has a cellaring potential of at least 3-5 years. The minerality will show up even more with aging.	

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Image 12.1 Schloss Vollrads wine fact sheet for 2013 Kabinett.

something like "Let me tell you a story." It is well known in marketing that whenever someone tells a story, people listen immediately, and the elements are remembered with richer detail than any other form of communication. An approach can be placing a few bottles of wine on the table, or better, handing them a glass to sample. It could be a small tour of something innovative at the winery. The point is that this first few seconds ought to be contemplated carefully because there is a great deal of clutter in people's minds that must be set aside temporarily in order for them to pay attention to the specific meeting. Even if the meeting is a formal one in a boardroom, guests may not truly "be there" mentally. It is important to gain their full attention, make them feel comfortable, and connect with them.

Asking Questions and Listening

Clearly, the heart of a sales call/meeting is the interactions that happen. Both parties should be asking questions and listening carefully to the answers. This sounds obvious, but it is often done poorly, meaning in an impromptu, unplanned way. Open-ended questions such as "Please tell me about your strategies for selecting and meeting with retailers" will elicit richer, more detailed information. You need this information in order to know what to discuss about your wine and winery. Simply dumping facts on a distributor will not work. They have too many labels to distribute. In fact, the more facts you share, usually the less effective the impression. Share what is relevant and helpful for the distributor to do their job, which is to help you move your wine.

The questions a winery would like answered ought to be thought of in advance of meetings. Some will obviously be factual, such as number of brands the distributor represents, size of their sales force, areas they cover, and so forth. The idea is to know where a winery's brands will fit into the distributor's, retailer's, or restaurant's portfolio. This will help a winery determine appropriate pricing and also assess how much attention will be given to selling one's wines.

Presenting Attributes, Benefits, and Sacrifices

When the conversation shifts toward presenting information, it is critical to go beyond mere facts and data. Customers want to know how the facts and details, what we refer to here as attributes of the wine and business, will benefit them and their customers. They also know that everything is a tradeoff; therefore, they expect to hear about costs or sacrifices they will need to endure. If they do not hear about them, they will infer them.

These attributes are often discussed by wineries:

- quality of vineyard operations and crops
- quality of the wine
- characteristics of each of the wines in the portfolio
- details about the winemaker

- history of the winery and family when relevant
- critical aspects of the winery's philosophy such as organic/biodynamic
- awards
- wine ratings
- price points
- interesting tourism-related details about the winery such as an ancient castle, a mission, a restaurant, or lodging
- where the wine is currently distributed

These attributes are important only when they deliver benefits to customers, and these benefits should be articulated and not left up to the distributor, retailer, or even consumer to infer on their own. They will clearly discover their own and hopefully discuss them. But those benefits that are obvious to the winery should be explained, such as use situations that are enhanced by the wine. For example, a basic benefit of a wine could be how well it pairs with certain food types. Others are often ethereal or abstract in how the wine fits well in certain social occasions, from intimate dinners to barbecues to entertainment. Wineries often discuss how the wine might taste through tasting notes. But most of the managers we met with qualified this by saying each wine will taste different to each consumer, and the taste will change for the same consumer depending on when and how it is consumed.

For a distributor, benefits include the profit they are likely to make by purchasing at one price and selling to their customers at a higher one. Benefits also include the ease by which they will be able to move the brand. If a wine has high brand equity, meaning it is well known and valued in the marketplace (it is in demand), clearly the distributor's job is easier. A less well known wine requires the distributor to educate its customers. Therefore, the winery must provide materials such as brochures and websites to make their job easier. Going a step further, many of the owners, winemakers, and sales professionals with whom we met spend a great deal of time on the road. Much of this time is spent with distributors on joint sales calls. There is little that is more powerful for making a retailer loyal and exciting to consumers than a winery owner or winemaker visiting in person from a foreign winery explaining their wines and the winery's story. This is expensive for a winery but very helpful. As we discuss in this book when we discuss social media, sometimes digital technology can help, such as for conducting virtual wine tastings. A wine tasting on Skype doesn't impact a group of consumers or retail managers as much as the winery owner visiting in person, but it is engagingly interactive and far more cost effective.

There are two main sacrifices when it comes to wine—price and availability. Sometimes great, high-quality wines are outside of a consumer's price range or outside of the price range a distributor wishes to carry. For some customers, price conveys something about quality, but not everywhere. With international wine distribution, local domestic wines can often be found at far lower prices than imported wines. The market generally recognizes this. But during tough economic recessionary times, many wine consumers will drop down in price point and/or volume of wine they consume. Interestingly, many of the premium and ultrapremium wines globally did not suffer as much as expected during the economic downturn of 2008–2009. But generally speaking, price can be a barrier for some markets.

Availability is a problem for wines in high demand but with limited distribution. This situation could be limited to specialized estate releases or apply to a wine producer's entire inventory. One would think that a free market would allow a wine producer to increase the wine's price significantly in this scarcity situation, but that is not always the case. There are many reasons why there may be a ceiling on a wine's selling price. This brings us to handling objections.

Handling Objections

Successfully dealing with customer objections is the road to sales success. Customers always have reasons for resisting. Some of them are stated, and some are not. A salesperson must uncover both types and all of the relevant ones. She must then overcome those objections in order to close a deal. There are numerous forms of objections. We will deal with three we identify here:

- no need
- poor value and price
- poor alignment

When a distributor already carries a wine label of the same varietal at the same price point as the one a winery is pitching, he initially concludes that he has no need for that wine. It's not personal, and it is not that the winery's story isn't compelling, or the wines are not of outstanding quality. It is just that the wine and winery story are not compelling enough to break out of the clutter and either complement the other brands the distributor carries or displace the ones currently being sold. There are ways to reframe this objection and handle it. However, if there truly is no need, a winery is likely wasting its time with this potential customer. So ideally, prequalify customers where a need is evident. More on this under strategic selling approaches in this chapter.

We place price and poor value together because price never stands alone. A price is a price, and most wineries price their wines competitively within the markets they feel they compete, allowing for markups on down the distribution chain. These markups can easily translate into a wine selling on premise at a restaurant three to five times the price at which the winery sells the wine to the initial distributor. And it could be many more times that. We heard one story from an organic wine producer with a global presence that a bottle that would sell for €7 in the domestic European market was found on Long Island, New York, selling for over US$150 per bottle. But the argument isn't simply that the wine is too expensive; it is that relative to its perceived benefits, the price is too high. For the distributor, this may mean that the effort required in labor hours and marketing support to sell the wine will not produce profits he needs in order to run his business. To a consumer, it means that given the level of enjoyment expected, the price is too high.

Yet it can also sometimes mean the reverse. Wines priced too low will send a message to some customers that the wine belongs in a lower quality category than it really does. This is important to remember when dealing with distributors' objections. A winery cannot allow a distributor to drive the purchase price down in order to then sell it at a lower than appropriate price down the chain. Because price is associated so strongly with wine quality and appropriate use, pricing must be carefully managed. Shifting consumers' mindsets to view a wine as significantly higher quality than they are used to seeing from that wine is nearly impossible to do. Some well-known mass-distributed low-to-mid priced wine producers have had difficulty shaking this image and have ended up launching new brands that were difficult to connect to the parent company. This thinking is consistent with the house of brands concept we discussed in chapter seven on branding. If a distributor complains too much about pricing, and the winery is confident in its understanding of pricing in the marketplace, the winery should switch distributors. However, if the distributor is correct, possibly the winery is too isolated from the market in question.

Handling objections means first uncovering them. The best companies know the top five or ten objections they typically hear, and have ready responses for each. One way to surely not handle them is to ignore or postpone them. There is a technique known as forestalling. Forestalling means to bring it up before they do. If your wine is priced at an ultrapremium level, do not apologize for it. Instead, bring it up first, explain why it is worth that price point, then help the distributor become comfortable and confident in positioning the wine the way you want. He will in turn need to convince his customers to do the same.

Closing

Closing refers to wrapping up a conversation or negotiation and obtaining commitment from customers, including distributors. We did not find any wineries that could not negotiate deals with distributors, retailers, and restaurants. What is often left a bit too informal is the closing of individual meetings. This part is more common in some cultures than others. In the United States, for example, many managers appeared to have a strong business orientation, as expected. To them, a meeting is a means toward an end. Thus, next steps, obligations, and time schedules are clarified at the end of every meeting to "keep things moving along." In some cultures, such as New Zealand and Italy, we heard less about the business comments and more about interpersonal relationships and how easy or difficult it was to work with distributors. So how closing gets done depends on the culture and the nature of the relationships, but a wine producer cannot assume that the value, quality, and next steps are obvious. Without commitments, it is difficult to measure success or progress of any kind.

Follow-up

Finally, follow-up refers to maintaining ongoing relationships with customers of all types after the contract is signed. Distributors, retailers, and restaurants have ongoing and changing needs as they try to sell a winery's labels. Keeping up with how well they are doing and obstacles they are facing requires regular interaction. The best winery leaders we met are in contact weekly, host visits to their wineries several times each year, and exchange data regularly. This may involve as few as two distributors per country in only several countries, or as many as a couple of hundred. The more relationships, the more time is required, and the more formal and methodical the plan should be for keeping up with how things are going. It is important to be close enough to the frontline sales data so as to have enough time to react if need be.

These are the basic tactical steps in any selling process. At a minimum, those accountable for selling in a winery, be they owners, winemakers, or account managers, ought to have a plan for how they perform each phase of the process. But the best of the best adopt a strategic approach to selling itself.

Strategic Selling

Some key concepts gained attention with the Miller et al. book, *The New Strategic Selling* (1988, newest edition 2005).[1] A strategic approach to selling is almost common knowledge in advanced sales teams today. It refers to a way of managing important, complex accounts. A complex account relationship is one where:

(a) both organizations have choices,
(b) the processes for making decisions are not obvious, and
(c) multiple people are involved in the buying decision.

In many cases, selling to a distributor or restaurant would be considered a middle level of complexity; they are not quite as complex as selling five new large pieces of bottling equipment to a major wine producer, but they are far more complex than selling a bottle of wine to a consumer in a retail setting.

Because a winery has many choices in distributors to whom to sell, and likewise the distributors have even more choices of wine producers from whom to buy, the first criterion (i.e., a) is met. It sometimes takes meeting with each distributor, restaurant, and retailer to determine who influences the buying decision, in what ways, and how the decision will be made within each organization, and thus the second criterion (i.e., b) is met. Finally, when more than one person can become involved in the buying decision within the distributor, such as when they actually ask their retailer and restaurant customers for input, the multiple decision maker and influencer criterion

Image 12.2 Duckhorn Best Press accolades.

(i.e., c) is met. So how do wine producers sell to organizational customers in a strategic way?

There are three main points in strategic selling relevant to the wine industry that we discuss here. The first deals with multiple influencers. The second deals with adaptive selling. The third deals with gaps.

Dealing with Multiple Influencers

Each business account usually has more than one person involved in the purchasing decision. Furthermore, each contract, even with a customer the winery has worked with before, should be evaluated to see whether new or different people are involved. So each contract negotiation must be thought of as at least partially if not entirely different from the others, even if the customer has been a customer for a long time. The roles that these people play fall into three main categories: economic decision maker, technical influencer, and user influencer.

The economic decision maker has authority to make the final decision and sign a contract. With a small distributor this may be the owner. Within a grocery retailer this may be the senior category buyer for wine and spirits. In a specialty retailer it may be a category buyer specializing in wine from a certain country. For example, in an outstanding wine, spirits, and beer retailer near one author's home, there are specialists for Italian wine, French wine, wine from the United States and other nations, as well as craft beer specialists, and even bourbon specialists. For a restaurant, this may be the owner. The goal is to eventually obtain a signature and agreement from the economic decision maker.

The technical influencers are those people who decide on the specifications of the product and services desired. With a distributor this may be one of the sales professionals responsible for the market in which the wine producer wishes to sell. However, technical influencers do not need to work for the customers. Specifically, a retail or restaurant customer of the distributor may also influence profoundly the technical requirements for a product and services. For example, sometimes wine is drop-shipped from the producer's distribution center directly to the retailer under contract with the distributor. The retailer also knows fairly well what varietals of wine his shoppers prefer or request regularly (or even for one-time specialty orders) and these technical requirements will obviously influence what the distributor will request of the wine producer. In a restaurant, a wine cellar manager or sommelier can easily be a technical influencer and some cases, have economic buying authority.

The user influencers are those people who must actually handle the product. So in the bottling equipment example, the user influencers would be the employees and managers responsible for the bottling operations. These people need to actually work with the machinery and usually have input into what equipment they would like to see purchased. In a distributor, user influencers could even be employees who handle the cases of wine while loading and offloading them. They may have influence on outside packaging, labeling desires, and so forth to make processing the product more effective and efficient. User influencers in a retailer can be stocking personnel who need to arrange bottles on shelves, or floor salespeople. They may actually interact with shoppers as much as anyone and have some input. They also know something about physical problems that may make a unique bottle style interesting yet nearly impossible to fit into standard racks in the store.

Now this may seem entirely too complex for a small winery selling mostly to local small independently owned restaurants and retailers where the key points of contact across all organizations are the business owners. Keep in mind that each of these decisions is made by someone within customer organizations, even if they are being made by one person. However, the larger an organization becomes, the more it tends to specialize its workforce and assign responsibility for these decisions to different people. The three categories help a winery think of the roles people are playing in any given contract negotiation. When multiple decision makers and influencers are involved, meetings with each influencer should be held, and each person must be "sold" on working with the wine producer and purchasing the product. The mistake we too often see is that a wine producer maintains relationships with one key person in each distributor or retailer, leaving that person to deal with all of the other influencers on their own, trusting all communication and information to flow through one person. This is highly risky. So how do wine producers who manage this well sell to each individual influencer and decision maker? They do so by adapting.

Adaptive Selling

Adaptive selling refers to adjusting one's style to the person with whom you are meeting. Adaptation happens in two related ways. One is simply thinking about how each role we discussed (economic decision maker, technical influencer, user influencer) will value something different from a wine producer. In the questioning and listing phase, the salesperson must uncover what is important to that individual and his job in order to then present the appropriate attributes about the winery and its services that will best meet that specific person's needs. Each person must be thought of as important in the entire process. The economic decision maker is usually most concerned by things like return on the investment and how the wines being proposed will help him execute his own strategies. The technical influencer will often be interested in specific details about the wine, tasting notes, merchandizing materials the winery will provide, and so forth. The user influencer will often value anything that makes her job more operationally efficient since she has to physically handle the product and display it. So where the technical influencer in a retailer may want to know about merchandising materials, the user influencer will want to know if she will be required to build a display versus the display arriving already constructed. These are merely examples. Recall that we discussed more detailed ways to uncover what customers value in chapter nine covering market research.

A second manner in which adaptation occurs is in adapting one's social style. Social style is not the same as personality. Social styles are chosen, whereas personalities are not. Each of us has preferred social styles in certain contexts, whether we formally control them or not. Research has found four common social styles for business settings: Driver Style, Analytical Style, Expressive Style, and Amiable Style. These are discussed in numerous places including social intelligence companies' websites such as TRACOM[2] and others.[3] We tend to gravitate toward one style in meetings if we are allowed to do so. If we are not, we rely on alternatives. Our points are (a) know what your own preferred style is, and (b) be able to pick up on and adapt to the style of others with whom you interact in meetings. So what is each style?

All four styles are defined by two dimensions: assertiveness and social responsiveness. A Driver Style is when someone prefers to be assertive about their opinions and is less responsive to the emotions and personal situations of others in the group. It is also a style where a person expresses concern for strategy, objectives, return on investment, and how a wine producer can help his company achieve its goals. When a person is using this style, he is less concerned with small talk and interpersonal issues.

An Analytical Style is when a person is mainly concerned about the data and accuracy. This style is not very assertive about expressing opinions, so this person will ask a lot of questions, mainly about details to clarify facts. A person using this style is also less concerned about social situations and what the other people in the group are dealing with, and how they are expressing themselves and connecting with those people.

A person relying on an Expressive Style is both assertive and responsive to the social situation around her. She is often discussing a vision and potential, and because she is connected to people interpersonally at this time, she will try to motivate as well as listen to others.

Finally, the Amiable Style can be seen when someone is not concerned about expressing opinions but is highly concerned about what people in the group are going through and how they are communicating. An Amiable Style comes across as friendly and easy to get along with.

It would be easy to conclude that certain business disciplines attract people who prefer certain social styles. For example, aggressive leaders might prefer a Driver Style, engineers might be Analytical, inspirational salespeople Expressive, and support staff Amiable. However, people in any discipline can prefer any of the styles. And even if a person would prefer to adopt a Driver Style all of the time, in some situations he simply will not be able to because there are already one or more people with more authority adopting that style. In situations where a person cannot or feels he should not adopt a style he would prefer, he will adapt to another. The last style a person will adapt to is their polar opposite. Specifically, someone preferring to be highly assertive and not worry about what everyone else is dealing with (Driver) would adapt to an Amiable or Expressive style before ever adapting to an Amiable one, the style lowest in assertiveness and highest in social responsiveness. Similarly, the person referring an Amiable Style will adapt to a Driver Style last. The same logic holds for Analytical Style and Expressive Style, polar opposites of each other.

Interpersonal interactions are critical in wine sales. They occur everywhere—in cellar doors and tasting rooms, meetings with distributors at the vineyard and at trade shows, meetings with retailers, and meetings with restaurants. In order to communicate effectively and, more importantly, more effectively than one's competitors do, salespeople and owners ought to be savvy in understanding their own preferred social style, picking up on those of others, including all of the key decision makers and influencers we discussed, and then adapting to the style of others. In this way, you are more likely to develop a rapport that will enable you to discover ways to better serve your customers than you had in the past and better than your competitors are doing currently.

Gaps

The third and final point about strategic selling we wish to present is the idea that if a customer does not see a gap between where he wants to go in the future and where he is currently headed, the opportunities to make a sale are minimal. If things are going as planned or better than planned for a customer, that customer sees no need to change what they are already doing. If, however, there is a gap, then they will look for solutions to close that gap. This is where a winery can help.

There are two kinds of gaps. The first is an opportunity gap. An opportunity gap refers to a situation where the customer sees his current trajectory as not on track to take advantage of opportunities he sees in the marketplace.

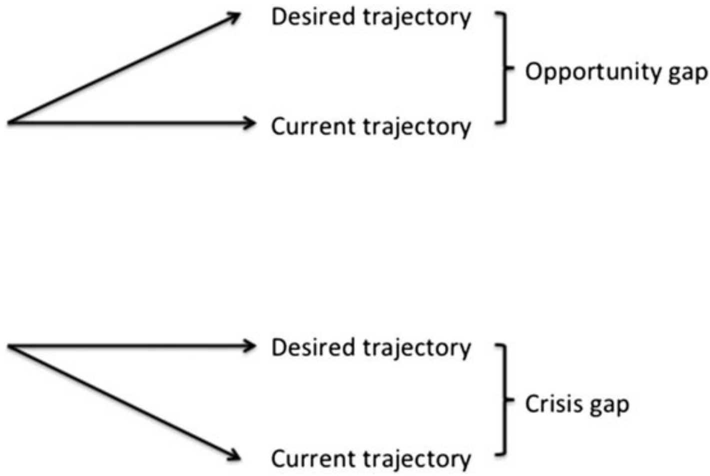

Figure 12.1 Need gaps.

For example, a retailer that notices a growth in sales for Pinot Gris wine but currently carries only a few brands of that varietal may feel frustrated and seek distributors who can offer more variety in that category. Distributors with access to this retailer and who carry the appropriate portfolio of brands for the retailer have the potential to help close that gap. There are many ways in which a customer may need help closing any number of opportunity gaps the customer perceives. The goal of sales professionals is to discover the opportunity gaps various customer contact people perceive, identify which ones can be realistically closed, and in what ways the winery with its products and services can help close them.

The second kind of gap is a crisis gap, which refers to a situation where a customer is in trouble, performing poorly relative to how they wish to perform. For example, a restaurant may have plenty of wine brands in numerous categories, but patrons may still complain because the wine list is not "interesting enough." Thus the desired dining patrons begin to spend their evening meals elsewhere. Possibly a winery has some very interesting wines with unique character and intriguing tasting notes. Or possibly one of the wineries already providing wines to this restaurant has support materials about the history of their winery, the owners, or the wine maker that would add excitement to the dining experience. These stories could be provided in a form that the restaurant could provide to patrons. The point again is to help customers close the gap, help them remove the pain of the crisis, and get them back on track.

Sales Force Management

"Every year we organize a big convention for the sales force and it's for us [in marketing] to present all of our projects," said a marketing director at Banfi. To have a large enough sales force to warrant a convention is impressive in itself. They "have sales people all over the world, we have three in Europe, one in Germany, one in the UK and one based in Italy but traveling around Europe, two in Asia, one for the north and one for the south and one in South America. So we have sales people onsite to move along the business." However, sales force annual meetings are important for numerous reasons. First, they enable leaders and managers to provide the same message at one time to a group of professionals normally spread all over the world. In this way, sales professionals are provided with the tools, materials, and information necessary to sell to and help customers. Some information is also strategic and financial so that the sales force will be well informed and feel connected to the headquarters of the winery. Second, meetings usually involve some additional sales training. Training includes details about specific customers or training in sales techniques. And third, meetings are highly motivational. A field sales force, sometimes geographically displaced from the winery where the passion lives, and often being rejected or failing to hit volume, revenue, or profit goals, can easily become dejected and frustrated. Regenerating their energy and motivation is important.

We provide only a brief overview of managing a sales force here. However, once a wine producer becomes large enough to have numerous sales professionals—a sales force—it will come across issues related to managing that sales force. There are a few specific topics that should be explored in terms of managing the sales force: structuring a sales force (territories, determining sales force size, dedicated reps versus agents), compensating and motivating (commission levels, awards), forecasting (bottom up, top-down methods), and training. Many sources are available for guidance in each of these four key areas.

What We Have Seen

Many winery owners are good at developing and maintaining relationships with distributors. Many are also good at relationship management with retailers and restaurants. And some winery leaders, like several we met in France, including one president of an ultrapremium brand winery, are more than content to work only with the négotiant intermediaries, or wine merchants, in many cases not even knowing too well who the merchants' specific retailing and restaurant customers were that were selling their wines. Some with whom we met had long-term connections with these "customer" organizations (recall chapter four on relationships). Some were more clearly aware than others of strategies and tactics for strategic selling.

One New Zealand winery with whom we met was extremely focused on sustainability. This winery understood the approach and presentation aspects of selling very well. For example, in the center of their wine tasting room they had a table with glasses of liquid in which sat various fruits and grasses for customers to smell to isolate characteristics of a wine's aroma. This table caught visitors' attention every time they walked in the door. (We know because it worked on us, and we watched its effects on others for nearly an hour.) Along with that table, tasting room managers essentially ran a small class through the day, teaching about sustainability practices in their winery and in New Zealand at large, and about wine making. The presentation and style of the room and the customer focus of the floor managers were unique enough to draw small busloads of visitors throughout the day. In similar fashion, one of the wineries we visited in the Napa Valley, California, has extensive grape-growing and wine-making signage all around the tasting room. Through separate doors were numerous private blending and tasting rooms so visitors could have more personalized tastings. Although many wineries with tasting rooms do some form of educating, wineries like these take educating to an entirely different level. At these places, they develop rapport with visitors and teach them as if they were in a university or lab. As we watched this play out, floor managers would ask open-ended questions, deal with objections like taste, complexity, and price with ease and guided many to significant sales.

Image 12.3 Ricasoli bottle display.

At Smith Haut Lafitte and similar wineries, thousands of visitors are taken on tours throughout many days of the year. But there they have more intimate, unique, and artistic private locations to meet with their special guests, such as important buyers. The director of marketing and sales spends countless hours calmly interacting with key decision makers trying to understand each person's needs and connecting his brands to those needs. He also spends many days each year traveling internationally to develop and maintain relationships.

Summary

Selling occurs every day with wineries in one way or another. This chapter was written to ensure that wineries take this part of marketing seriously. It is easy to assume that due to the nature of the product, vineyards, and winery, "selling" shouldn't be that difficult. It is not so much how difficult it is, it's more about the variation in performance. Absent a strategic approach, it is difficult to know how to improve.

We're nearing the end of the book. In chapter thirteen, we return one last time to the topic of supply chains to hit supply chain management.

CHAPTER 13

Supply Chain Management

Case Vignette: Craft Tasting (pseudonym), Australia

Craft Tasting is a group of seven small producers that collaborate on many of their supply chain processes. They each have their own source of grapes, and they control their individual brand image. Even though they individually manage production of their wines, some of them share facilities for these processes. They all jointly invested in the cellar door for their wines, and collaborate with distributors to represent multiple if not all of their brands. As each has grown, some have taken on some of the supply chain processes themselves; however, the synergies and efficiencies they garner from working together often outweigh any advantage to going it alone. Because each of the producers is so small, their primary goal is to keep their costs as low as possible, and thus they want an efficient supply chain strategy. Working together as if they were a single company with multiple brands is an effective way to achieve this.

"So what actually happened is that they shared the same distributor from the UK. And he is a pretty adventurous kind of guy and is really out there. He decided he wanted to bring small [region] artisans to the UK so he rang 12 guys up that he knew were part of his portfolio and said come on over, we're going to do a tour for three weeks. And after three weeks of living in each other's pockets when they got back here, they met at the pub and had a couple of drinks. They also had a meeting one day just to review what they had done to see if that was any good or not. And at the meeting it came up that someone wanted to buy a tractor and was asking for advice. And then one of the guys said well, don't buy one, just borrow mine. And then they started sharing resources—money, fermenters, tractors. And after a while they decided that they would pull money together and they would create a brand for themselves because as individual wineries they wouldn't be able to be seen, but as a collective they could."

This passage from the COO of Craft Tasting is telling of their entrepreneurial spirit as well as their perspective on business relationships. Craft Tasting manages their supply chain through what is called coopetition. This is a combination of the words cooperation and competition, and refers to competitors cooperating with each other. The seven producers make many of the same varietals of wine; so they do in fact compete in various marketplaces for share of the consumer. However, they have determined that the benefits of working together are better than any they might get from directly competing against each other. Managing all of the processes in a supply chain requires a great deal of investment in various resources, and when the focal firm is small, such as the case of the Craft Tasting producers, the ability to acquire such resources is more difficult. Thus, coopetition is often a great opportunity for effective and efficient supply chain management.

Supply Chain Management

Supply chain management is essentially the integration of supply and demand management within and across firms in a supply chain.[1] It encompasses a combination of strategy and activities to achieve the strategy. This chapter provides an overview of what it takes to manage a supply chain with specific examples from the wine industry. It will explain supply chain strategy and what contributes to it. It will then describe the key activities or processes that need to be accomplished to effectively and efficiently manage the supply chain. Finally, current trends in managing the wine supply chain are presented.

Supply Chain Strategy

After a supply chain is designed (see chapter eight), to effectively manage it, the focal firm needs to follow a strategy. Are you capturing one theme through this book? It relates to strategy. We've discussed a brand management strategy, communications strategy, selling strategy, supply chain strategy, and more. The wine business is far too competitive and global to try to run a business without these sound strategies. The supply chain strategy is the overarching plan of how the supply chain will operate and should fit within the overall company strategy. An effective supply chain strategy should focus on the customers being served, understanding what they value from the supply chain, planning the products and services to serve them, and choosing the right supply chain partners to deliver that value.[2] Often companies, particularly small ones, do not have a formal or specific strategy for their supply chain. This is the case in the wine industry—many producers do not even think about their supply chain, let alone manage it. Thus, the first consideration with respect to strategy that we want to revisit from chapter three is the orientation of management. There, we discussed orientations in terms of an organizational foundation. Here, we want to connect the foundation to supply chain management strategies.

Orientation

As you read, business research has discovered several different orientations or philosophies driving business decisions, such as a marketing orientation (focus on obtaining, analyzing, and disseminating information on markets), customer orientation (focus on pleasing the customer), entrepreneurial orientation (focus on innovation), and sustainability orientation (focus on improving the triple bottom line). Orientations can be held by individual managers as well as companies.[3] Some firms/managers have a supply chain orientation (SCO). An SCO is the philosophy that embraces the importance of working with supply chain partners to reach firm level and supply chain level objectives.[4] All of these orientations are not mutually exclusive—managers and companies can follow multiple orientations. Managers and companies may follow none of them. The bottom line is that those with a supply chain orientation are more apt to be working with their supply chain partners in managing the supply chain.

The research we conducted with numerous companies in various wine regions showed that only 25 percent of the nearly two hundred companies included had some level of SCO. These were primarily larger companies and those owned by the large, public spirits companies. However, the smaller companies often also embrace an SCO when they have positive experiences working with other supply chain players, including competitors. This is fairly common within wine regions. As an example, the CEO of a producer in Australia explained how they worked with other wine companies in their region to implement business processes: "When we were looking for financial systems, we went everywhere. We went to [other producer] and [other producer] and [other producer] and all these, some of the bigger ones we knew probably would have a system in place. Everybody does that. Our winemaker will always chat with other winemakers about which styles, what barrels they're using and all that kind of stuff. So it is kind of nice community."

Orientations are important in that they are the precursor to effectively managing the area in which a company or manager is oriented, which then leads to performance. For example, an SCO is necessary to implement SCM in the supply chain.[5] Therefore, it is important to consider the orientation of managers and the firm in order to develop an effective supply chain strategy. The other piece of strategy is the structure of the supply chain and how it will operate.

Structure

Supply chain strategy should be selected to match the demand and supply characteristics of the focal product.[6] Figure 13.1 shows the four supply chain strategies and their characteristics. Demand characteristics describe the nature of the finished product. A functional product differs from an innovative product in that it has predictable versus unpredictable demand, lower versus higher margins, lower versus higher product variability, and longer versus shorter life cycles. Wine would be considered to be more of a functional product in that it is fairly easy to forecast overall demand, has a long life cycle, and there are not many variations (other than varietal and vintage) in the product. Supply characteristics describe the nature of supplies that go into producing the product and the production process. A product is considered to have stable supply versus evolving supply if it has more versus limited supply sources, stable versus variable production yields, and fewer versus more process changes. Because wine is made from an agricultural product with an annual life cycle, it inherently has more limited sources and variable yields; thus it is considered to have more evolving supply.

Based on these product characteristics, wine producers should adopt a risk-hedging supply chain strategy. This sort of strategy focuses on pooling resources in order to alleviate risks in supply disruption.[7] Therefore, the upstream portion of the supply chain should have some redundancies in supply; that is, it would be best to obtain the key materials—grapes—from multiple sources to minimize the possibility of limited supply. For example, if a supplying vineyard was damaged due to weather or pests and was the only

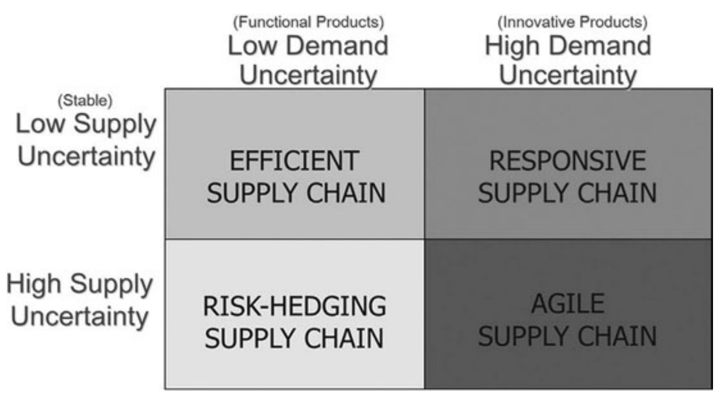

Figure 13.1 Supply chain strategies.
Sources: Fisher 1997 and Lee 2002

source for a producer, they would be left with little to no supply, which would mean little to no wine for that varietal/vintage. Many producers obtain grapes from different vineyards, keeping relationships active with various growers even if they don't buy much from some of them. This helps protect their supply when there are difficult growing seasons. As mentioned, the product is largely functional in that it experiences fairly stable overall demand. Thus the downstream portion of the supply chain can be structured to operate efficiently and minimize costs. This does not necessarily mean eliminating all middlemen and selling direct to consumers; this may not make sense for some producers. Producers simply need to determine the structure with lowest cost to reach their end consumers in their markets. Once the supply chain strategy is established, then the players can manage the processes in the supply chain, which are presented next.

Supply Chain Management Processes

A supply chain is managed by integrating functions (discussed in chapter eight) through eight key processes across the players in the supply chain. The processes include developing product, forecasting demand, obtaining supplies, producing and distributing product, and managing relationships among the players. The processes are part of the Global Supply Chain Forum (GSCF) framework and are described below.[8]

- Customer Relationship Management—provides the structure for how relationships with customers are developed and maintained. Cross-functional customer teams tailor product and service agreements to meet the needs of key accounts, and segments of other customers.
- Customer Service Management—provides the firm's face to the customer, a single source of customer information, and the key point of contact for administering the product service agreements.
- Demand Management—provides the structure for balancing the customers' requirements with supply chain capabilities, including reducing demand variability and increasing supply chain flexibility.
- Order Fulfillment—includes all activities necessary to define customer requirements, design a network, and enable the firm to meet customer requests while minimizing the total delivered cost.
- Manufacturing Flow Management—includes all activities necessary to obtain, implement, and manage manufacturing flexibility and move products through the facilities in the supply chain.
- Supplier Relationship Management—provides the structure for how relationships with suppliers are developed and maintained.

Cross-functional teams tailor product and service agreements with key suppliers.
- Product Development and Commercialization—provides the structure for developing and bringing to market new products jointly with customers and suppliers.
- Returns Management—includes all activities related to returns, reverse logistics, gatekeeping, and avoidance.

Unless part of a large company, most players in the wine industry do not have supply chain experts who formally manage these processes; however, the activities are done, even if by the founder or sole employee. Table 13.1 provides examples of how some of the companies interviewed in our research accomplished these processes.

Table 13.1 Examples of supply chain processes in the global wine industry.

Process	*Examples of Implementation*
Customer Relationship Management	Wine producers have numerous consumers, and most also have various customers that help them get their product to those consumers. However, not all consumers or customers are equal in their eyes. Many producers have wine clubs where they directly ship product at a discount to those consumers who have committed to regular purchases; these consumers are more loyal than others. Producers also segment their customers and invest resources into relationships with those they deem more important. A New Zealand producer described their approach: "Well the bulk of communication with [large retailer] is done by email but it really literally takes about 5 phone calls between the two countries. We make an effort to visit all of our distributors at least once a year, and the most important ones probably see us three to four times in a year so there's a lot of travel involved or particularly for the sales and marketing manager and myself. What does stand out is bringing them here. So we have our Australian distributors in and a couple of Brits here with us 2 weeks ago as a reward for the previous years."
Customer Service Management	No matter the sales channels they have chosen, all wine businesses deal with customer service. It is a bit easier for smaller producers to provide a single and consistent source of information as it is generally one individual who manages this. However, when producers are larger, this becomes more difficult and must be more formally managed. One large producer in California described how even though 3 percent of their customers provided 67 percent of their business, when they worked on different service initiatives, they somehow included even the smaller customers. Part of their philosophy of managing customer service is to engage and collaborate with their customers in making different supply chain decisions such as on packaging and sustainability. The producer's representative noted that they were doing this to "be able to respond more quickly to changing customer needs."

Demand Management	In the wine industry, while overall demand is fairly predictable, the supply each year is highly dependent upon the amount of grapes obtained and the production capacity of the producer. Therefore, managing demand is a function of both marketing the product to consumers and planning the supply capacity. One Western Australia producer had recently installed "BMW" technology in their state-of-the-art production facilities in anticipation of selling to the Chinese market where demand is high and continues to grow. Although current production required only 2500 tonnes, the facility was designed to crush 5000 with the ability to add more capacity. Not only were they working on marketing blends to the new Chinese market, but they were also focused on those that would visit the facility as the cellar door was designed with consumers in mind as it was on the main highway through the region and "there is a restaurant, an area of computers so kids can play computer games, retail so women can shop, and dad can get a drink."
Order Fulfillment	Many producers, especially smaller ones, directly sell to consumers and customers, but when it comes to fulfilling orders for larger or dispersed markets, they use wholesale distributors. The key is to find the right mix of earning revenue while keeping costs down. A Washington producer described how they built their distribution network: "We can be way more picky now, but initially we would take anybody who would have us. And so we would research a market: 'OK we want to get into Denver. How are we going to do it?' We'd look at the top 20 distributors, but you know would probably eliminate the top 5 because we knew that they were too big for us—we'd get lost in their book—and then we'd work down from there. You know we'd want somebody with enough distributors that you could actually get out and have a reasonable market share, but not so many that they wouldn't pay attention to you."
Manufacturing Flow Management	All producers, whether large or small, manage the flow of materials through production. Some have developed facilities to improve the efficiency of the flow through the crush-fermentation-storage-bottling process. Many wineries throughout the world have sorting equipment at the edge of the vineyard outside their winery where they can simply drive up with containers of harvested grapes. An Oregon producer has conveyors from the sorters that deliver the grapes into the crusher. One Italian producer crushes their grapes on a large ground-level pad, and the juice is fed into hoses that direct it to fermentation tanks that are below ground, allowing gravity to control the flow rather than using pumps. One producer in Canada built their facility in four different levels with all subsequent steps occurring one level below. Producers in California commonly build their barrel storage facilities into the sides of hills so that they are underground and do not need as much temperature control.

(*Continued*)

Table 13.1 Continued

Process	*Examples of Implementation*
Supplier Relationship Management	In this industry, it is fairly common for a producer to obtain the majority of their grape supply from growers with which there is a long-term close relationship. These producers will also usually leave a small percentage of what they need open to obtain through more transactional relationships where they concentrate strictly on price for the transaction. A representative for a South Australian producer described this: "We'll be opportunistic when we find that the spot market is there and we find something that is good and affordable we'll grab it, but generally speaking what we like to do with the growers is include them as part of the family, that's the right way to think about it. So . . . we have an expectation of what's going in and what we're going to make out of it, but there's a long term understanding that we know there's a stability for both us and the farmers growing the grapes."
Product Development and Commercialization	While many noted that innovation is not natural for an industry around a historical product such as wine, many were introducing or planning to introduce new blends, varietals, and even complimentary products to their consumers. As an example, one Italian producer had developed and commercialized a product based on a wine cocktail, "We presented this year with this advertising campaign, it's going on the market alone without an effort. Everybody loves it like last Saturday Charlie (a colleague) was in Venice with his family and called me on Sunday morning, called me and told me yesterday night he was in San Marco square where everyone drinks (this cocktail). You can drink this kind in every bar in Veneto because they make it. So they sell in the supermarket."
Returns Management	The wine industry does not have to deal with returns very much. Consumers occasionally find a poor quality bottle, most often due to corkage (i.e., the cork has allowed in too much air and the wine has oxidized). However, many consumers do not bother to return the wine, but when they do, producers need to be prepared for how they will handle the situation. An Oregon producer described his policy, "The other thing is I treat people right—I mean I don't ever question. It's like buying shoes from Nordstrom—I mean the customer is always right. They call and they've got a complaint, 'I bought a bottle'—not that it happens often but take it, I just took some wine back the other day because she said, 'Uh I don't like this wine.' So bring it back. I think they like that. Well wherever, whenever anyone—if they had a cork pulled out or anything I just give them a new bottle or give them their money back."

The final piece of managing a supply chain is to measure its performance, which is to determine the efficiency and effectiveness of how the supply chain operates. The primary metrics used for this include measures for financial cost (e.g., distribution, inventory, production, cost of materials), quality (e.g., perceived value of the product, accuracy in shipping and production, relationship with supply chain partners), time (e.g., order times, production cycle times, delivery lead times), and flexibility (e.g., range of products, capacity utilization, labor flexibility).[9] Specific metrics depend on the supply chain; however, all of these may apply to the wine supply chain. We did not see much evidence of these metrics formally being used in the global wine industry with the exception of very large companies monitoring customer service and order fill rates. However, as the old adage says, "What gets measured gets rewarded and what gets rewarded gets done." Therefore, performance of the supply chain processes should be measured. There are entire books on managing a supply chain as well as some specific to the functions and processes; therefore it is not feasible to go into much more depth on this topic here. The reader is referred to one of these if interested.

Contemporary Trends in Managing the Wine Supply Chain

There are a few current trends in the wine supply chain that affect its management. These include working with competitors (coopetition), innovations in packaging, and sustainability. All of these trends in some way affect or are affected by the relationships among the players in the supply chain. This is not surprising, because the perception is that relationships are so prevalent in this industry, as noted by the CEO of an Australian wine group: "The network within the wine industry is so tight that you meet people fairly quickly."

Image 13.1 GIV Nino Negri harvest.

Coopetition

While the wine industry is highly competitive, it is also very difficult to manage the supply chain due to its global nature and the different regulations governing it. Therefore, a recent trend has been to work with competitors in order to achieve efficiencies with different supply chain processes, particularly distributing the product to other markets. This is not too much of a stretch due to the fact that many wine regions work together to market their region's wine and brand to the world (e.g., Oregon producers market themselves as the primary region for Pinot Gris). Some regions, such as the Barossa Valley in Australia and Montalcino in Italy, have governmental associations or consortia that help individual producers market and sell their wines. These agreements set competition aside in order for all of them to benefit. As one of the Barossa producers noted, "There's 80 cellar doors I think in the Barossa, some large number and I've never found one that was not pleasant, was not nice. And a lot of people if you ask them you can use more equipment or you can loan this. They help you. The big wineries down the street do our testing . . . we don't have a sophisticated test lab with all the latest equipment so we do it down the street here."

These "coopetive" relationships have various forms. Craft Tasting, featured in the beginning of this chapter, is one example of a few individual producers working together to obtain more efficient sales and distribution. Another is the upper management from one Australian family-owned winery that belongs to a group with other family-owned wineries that meets regularly to discuss business trends and strategies with each other. A small producer in the Veneto region has partnered with other small wineries to export her product. Navigating the regulations, paperwork, and costs of shipping were too difficult to do individually; however, as a group, expertise could be shared and costs reduced. A Washington producer talked about helping other small producers in his region and getting value from the relationships: "I gave them the space. I let them use the tractors, the forklift, the hoses, the pumps, the tanks, the trailers—everything they needed. I became very good friends with as many winemakers I could so we could always bouncing off ideas." In fact, when asked about their competitors, most producers didn't respond as industry statistics would dictate. Unless they were large, publically held corporations, wine producers no longer felt that other producers in their region were competitors at all. They believed they were "all in it together."

Packaging

Packaging is an area in the supply chain that has seen quite a bit of innovation in recent years. One key area here is the closure for the wine. Historically, natural cork has been used. Many consumers enjoy pulling a cork from a bottle of wine; however, cork allows a small amount of air into the bottle, and if too much, it can oxidize the wine. Some producers then turned to synthetic corks made from plastic compounds, which are designed to look and "pop" like natural cork. However, these also fail to prevent oxygen from getting to the wine. Glass stoppers with an inert O ring have also been introduced, but while they keep air out, they are much higher in cost. The Stelvin cap, or aluminum screw cap, provides a tight seal at a low cost. However, the issue with this closure is the perception of consumers that screw caps are used only for low quality wines.[10] One producer summarized this issue: "I love screw caps personally, but for here [winery] it's kind of like putting a Monet in an aluminum frame." Numerous producers in all regions and of all sizes we visited use the Stelvin caps, particularly in New Zealand and Australia. Some are leery, though, due to the perception, particularly those in Old World regions and those selling higher end red wines; those producers feel natural cork is necessary for the right brand image. A top Napa producer explained: "But let's talk about screw caps for a second . . . 5 percent of wines cork, the public probably perceives 3 percent. I'm using round numbers. So we have a winemaker in our group who wants to go to screw caps to eliminate that, and that's great. You know what? On paper that might be the right thing to do. Does the consumer want that? They certainly don't want it from our brand." However, producers all over the world are realizing the value from these closures and are experimenting with alternatives, even if only for some of their wines.

Other current trends in packaging include examining the container itself; the glass is heavy and therefore costly to ship and often difficult to recycle. Many producers have gone to lighter glass, which reduces expenses and is something most consumers don't notice. An additional benefit is that lighter glass is more sustainable to produce and dispose of; therefore, many in New Zealand, Australia, and Oregon (the most sustainable regions as discussed in the next section) have adopted this packaging. Some have even dared to test PET bottles, cans, boxes, and TetraPaks for their wine. An Italian producer discussed boxes because apartments are small, and therefore storage is limited, and single people want to be able to reclose their wine and drink it over several days. The perception is that only some markets would accept these alternatives, and as the Italian producer noted after discussing the importance of considering alternative packaging because it was the "future of wines" clarified, "I'm not talking about Brunello, but talking about wine. Brunello obviously is in glass and cork, natural cork."

Sustainability

Sustainability in the wine industry was discussed in chapter six. It is a growing trend in nearly every industry. While several companies in the wine industry implement sustainable practices, a small percentage actually work with their supply chain partners to do so. In other words, they go beyond improving processes internal to their organization and work with suppliers and/or customers to improve sustainability in the supply chain. For example, one producer in New Zealand was working with a consultant and a large customer to determine the carbon footprint of delivering their wine to the UK. They were essentially conducting a life-cycle analysis on a bottle of wine through the supply chain, as their representative described: "It's measuring carbon emissions for a shelf, for a SKU, so everything leading up to that SKU getting on the shelf, all the way through including the store front which is comprehensive." Another producer in California works closely with their suppliers on sustainability initiatives as they themselves work on becoming certified as organic. The participant was heavily involved in working with suppliers on sustainability and explained, "This year's project is kind of how we want it to work, get ourselves certified and get ourselves ready to go and then be able to talk about it with our growers and be able to help them along so we want to be familiar with the program before we start talking to them about it."

Those that do this generally have what has been identified as a sustainable supply chain orientation (SSCO), which is defined as working with supply chain partners in embracing the importance and alignment of resources toward sustainability.[11] Our research found fewer than 5 percent of organizations with this orientation; however, many others were on the path toward this based on some history of pursuing sustainability or working closely with supply chain partners on other initiatives. Considering the importance companies and supply chains are placing on sustainability, this trend, like the others, is likely to continue into the future.

Summary

This chapter discussed creating a strategy for managing the supply chain comprising the orientation of the managers/company and the structure of the supply chain based on product characteristics. It then introduced the eight key processes for managing supply chains and provided examples from the wine industry for each of these. Three current trends in the wine supply chain—coopetition, packaging, and sustainability—were discussed. Supply chain management is a complex topic, and this chapter presented only a brief overview of it. The reader is encouraged to explore more detail through the Council of Supply Chain Management Professionals (www.cscmp.org) or other books and articles.

CHAPTER 14

Performance Diagnosis

How does a winery know where it stands with any of this? There are several common ways practiced within the industry to get a feeling for how well one is doing currently. We discuss some of them here. We also offer a few more ideas of our own.

Wineries have numerous means for determining how well they are doing. What we have seen around the world suggests that most wineries are not extremely sophisticated in these performance assessments, despite being constantly curious about how well they are doing. We discuss numerous ways wineries diagnose their performance as well as ways that could be utilized more often.

Wine Ratings and Reviews Again

Let's begin with the basics—wine ratings. We covered wine ratings, such as Robert Parker's rating (*The Wine Advocate*), *Wine Spectator*, and *Wine Enthusiast*, in the fundamentals of brand management of chapter seven. Here we remind you that these are a form of diagnostic; they tell a winery where a brand stands relative to competitors.

So, one way to diagnose one's performance is by output metrics, such as an independent wine rating or review. Many of the winery leaders with whom we met follow these rating systems. Reviews also exist for wineries and cellar-door experiences. These appear in blogs by trade professionals as well as consumers, and comment on the overall experience, ambiance, and customer service levels, which include friendliness and helpfulness of the staff. Wineries gather informal customer feedback during cellar-door visits as well. Specifically, when guests spend time at the winery, staff attempt to determine guests' reactions to the wine and the facility. The better ones we visited, however, have formal satisfaction surveys.

Customer Satisfaction Surveys

Customer satisfaction surveys have been around for nearly 50 years in business; however, despite significant research into how to conduct survey research well, most businesses do this very poorly if at all. It is not difficult to conduct surveys well; it merely takes paying attention to the correct details. We discussed surveys in chapter nine on market research. As a quick review, the basic process is as follows:

- Determine qualitatively what customers value, that is, what is important to them in terms of the wine, visits, and so on.
- Design survey questions (known as "items").
- Gather data and analyze statistically.
- Determine strengths to market and areas for improvement.
- Provide feedback to the market about the process (they like to know).

Wineries gather qualitative feedback from customers who visit tasting rooms and winery booths at consumer fairs and from distributors who visit the winery on site or at trade shows. They use surveys at times to determine areas where customers are satisfied and areas where improvement is needed. Beyond ratings and tasting notes provided by third parties and customer surveys, qualitative and quantitative, most wineries we met do not do much in the way of marketing metrics. We offer some ideas next.

Web Analytics

Every winery with whom we met had a web page. Some were more static than others that were a bit interactive. Some were regularly updated with new news and information, while some were a bit out of date. If the website is to be useful for more than a digital brochure, it ought to engage and activate customers. There are ways to determine whether the website is effective or not. Analyzing the performance of a website and its links is known as web analytics. Without getting into a course on web analytics, an overview is that we are primarily referring to on-site web analysis, meaning analyzing traffic on an existing website. More than simply the number of "hits" to the website, web analytics can help you determine the effectiveness of each page by showing the order in which each page is viewed, how long it is viewed, and which ones lead to purchases, requests for information, or location searches. Web analytics can also assess the effectiveness of print and other campaigns by comparing online traffic timing with the timing of the campaigns and events.

Key Performance Indicators

If we get down to it, when we are talking about diagnosing how well a winery is performing in the marketplace, we mean how well is it performing on key performance indicators. Key performance indicators can be input, process, or output metrics. The obvious output measures are sales and profitability. So many variables affect these numbers that marketing has a difficult time drawing causal connections directly to specific sales figures. Nevertheless, leaders would like to know what level of sales lift (increase in sales over a base) was attributable to a specific marketing initiative. If we don't track the effects of our decisions, we can't improve. So if a winery in working with a distributor or retail customer altered its signage or packaging or placement in a store or introduced a digital kiosk helping consumers select wines, a leader should want to know the input costs to the initiative and the resulting sales lift. Combined with production and distribution cost data, both profitability changes and returns on the marketing investment can be calculated.

However, there are other metrics that can be used by wineries, and they relate to the marketing objectives pursued. An awareness campaign should result in increased awareness. A pre- and post-campaign sample can be surveyed to assess changes in awareness. An education campaign can be evaluated by conducting a study in those markets where the campaign was run on the knowledge trying to be communicated. For example, the global Bordeaux campaign we described should be evaluated with a postattitude survey.

There are numerous metrics used. One input measurement used is known as Costs per Action (CPA). CPA counts only when an online shopper actually converts (purchases) a product. But we also want to know the dollar value of that purchase to know what the ROI was (revenue/cost). Costs per Click (CPC) refers to costs in a contract to be paid to a company such as Google for every time someone clicks on the advertisement. For Internet advertising, each month the winery would get a bill based on actual click-through rates, which may differ significantly from the original estimate. In print media, there is a Cost per Thousand (CPT) referring to each thousand units circulated. A winery can purchase different size ads, different locations in the periodical, color schemes, and extensiveness of geographic distribution. When an ad agency provides an estimate, it takes all of this into account to estimate the percentage of the target audience likely to see the ad. It's known as "eyeballs on target." What the winery (advertiser) historically paid for was Gross Rating Points (GRP). A rating point is one percent of the total audience. So if 30 percent of a target audience views the ad the winery paid for, that would be 30 rating points. GRP is calculated as reach multiplied by frequency in percentage for the entire run of the campaign.

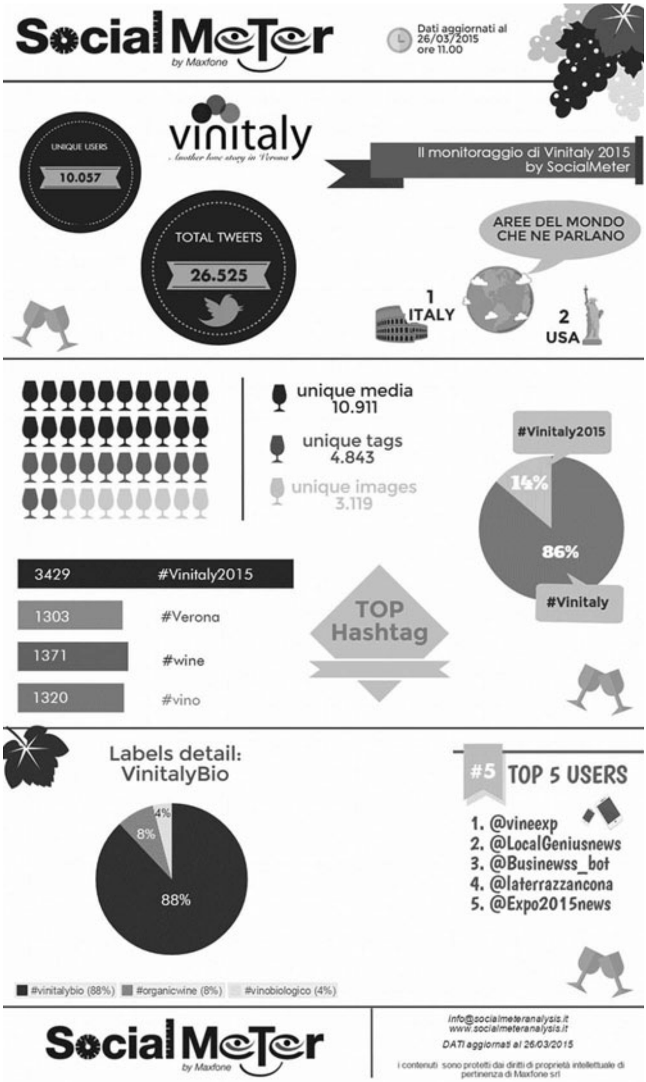

Image 14.1 Maxfone Vinitaly Social Meter.

Some additional measures that get at what customers actually do include number of fans (Facebook page, opt-in numbers for a social network), share of voice, number of visitors (website, cellar door), average page views per visitor (website), number of mentions (press media), interaction rate ("like" click rates on a social site tracked over time), and average dwell time (how long shoppers stood in front of a display, how long a visitor stayed on a web page). Not all of these are equal in their value, and some have problems in either gathering the data or knowing precisely what the data tell you. And there are many more.

To evaluate the quality of interactions, wineries can conduct a thorough social network analysis, sentiment analyses (Facebook, Twitter, forum, blog text analysis to find positive, negative, or neutral sentiment online), or an affinity analysis. As we described earlier, more and more tools are becoming available for analyzing the vast consumer generated data online.

You get the idea that wineries should track the investments they make in marketing initiatives, and then the outcomes that occur that can be attributed to those investments. A simple one might be to note all of the costs associated with a trade fair—for example, the booth materials acquisition/lease, set-up/tear-down labor, travel/lodging/meals for those working the booth, fair fee, logistics for wine and materials, and inventory consumed. Then note what process data and outcomes emerge—number of visitors/number per day, inquiries fielded, meetings held, quotes made, sales closed, and so forth. Then ask yourself—was it worth it?

But there is one more completely new diagnostic we wish to present here. It deals with corporate identity and if overall a winery's marketing communications (and other forms of communication) are contributing toward building the intended identity.

Diagnosing Corporate Identity: On Integration, Coherence, and Congruence

There are many ways in which a winery is communicating with the marketplace about what it stands for, what is referred to as a corporate identity. Corporate identity is like the image a winery has with its stakeholders, some of whom are customers. It is who the winery is. Sometimes this identity is purposefully managed, and other times it is formed unintentionally. As we have discussed in various places in this book, a winery should ensure that all of the ways in which it communicates with the marketplace are integrated and coordinated. Various media, materials, and messages ought to weave together smoothly and convey complementary messages. This does not mean that each message is identical. It means that they form a part of one overall story—they work together well.

Message coherence is one aspect that should be evaluated. Is each message, each campaign, each brochure, web page, and press release crystal clear and easily understood by the intended audience? Does each message convey what the winery stands for as well as the identities and positions of each of its brands? One of the most challenging tasks for marketers is to convey complex ideas and concepts in clear and simple terms.

Finally, are the various media and messages congruent? We need to discuss this one again. Being entirely congruent and consistent is the standard for excellence in brand management. All of the elements must be consistent to reduce the risk of consumer-based brand confusion. But as we discussed earlier, partial incongruence might just be the best approach for a winery. Partial incongruence refers to seemingly slight inconsistencies or oddities that motivate customers to pause and say, "Wait a minute now, something is odd here." This incongruent information makes people want to make sense out of it. By stimulating their natural response for puzzle solving, a winery has effectively slowed the customer down and encouraged them to process information about the winery when otherwise they might just simply pass on by.

Recall our discussion in chapter three about "the Big Four." In that chapter on foundations we described the identity characteristics of traditional, classic, innovative, and modern. Various communication elements will give stakeholders, including customers, the impression that the winery is one or more of these four terms. The elements that communicate something about how innovative, traditional, and so on a winery is were discussed in chapter ten and are repeated in Table 14.1.

In our research we have identified at least 16 elements that fall into these five categories that convey a winery's corporate identity. The question is how consistently do these elements communicate the same intended identity (i.e., traditional, classic, innovative, modern). Partial incongruence is when a winery portrays itself as both traditional and innovative or classical and modern, or any mixed combination of these identities.

Clearly, the product communicates its identity, and its identity reflects and is influenced by the corporate image. The most common product elements we discovered that convey and identity were the wine itself, the bottle (shape, color, thickness), the label, the closure mechanism (cork, synthetic,

Table 14.1 Elements that convey corporate identity.

General Area of Focus	*Specific Forms*
Product characteristics	Wine itself, bottle, label, closer, package
Marketing processes	Printed collateral, digital media, interpersonal interactions, events, architectural design
Winery operations	Vineyard management, fermentation, aging
Supply chain management processes	Network structure, relationship management
Organizational characteristics	Location, organizational structure, employee skill

glass resealable, screw top), and the additional packaging. Each of these elements serves to communicate to customers the identity and personality of the brand but also, as the wine is an extension of the winery, they communicate the winery identity.

At an equally obvious level, marketing materials communicate the winery's identity. The main elements wineries concern themselves with include printed collateral (brochures, books, cards) and digital media (websites, Facebook pages, blogs). These two marketing material categories are often managed by the marketing managers and staff. They complement the interpersonal communications made by sales professionals, managers, owners, and tasting room staff no matter where these meetings take place.

Then a bit less obvious are events. The events a winery hosts or participates in speak to its identity. A classical quartet in a vineyard garden surrounded by marble statues in a medieval castle serving the highest end of a product portfolio using nice stemware suggests a different identity than a barrel tasting event in a field with a lineup of rock bands, and drinks served in plastic cups. We have seen both and everything in between.

Finally, the architectural design of buildings at the winery speaks volumes about the winery's identity. Ricasoli of Italy boasts a castle from the mid-1100s, as does Schloss Vollrads of Germany. Yet they also speak of innovation and modern aspects of their current winery operations. Spy Valley of New Zealand displays an entirely modern architectural feel that has won high awards for its design. And Duckhorn's winery in California is a charming farmhouse style complete with large wrap-around porch and fire pit outside that invite all guests to relax as if they were at home. Each style is unique and authentic to the identity of the winery it houses.

However, product and clearly visible marketing elements are not the only elements that convey identities. We also found that winery operations played a role in communicating a winery's identity. Many times wineries communicated quite loudly what they did in their vineyards, in the production processes, and in their labs. Even less obvious are supply chain elements. However, the way wineries manage their relationships with distributors and suppliers, the markets they enter, and the relationships they have with specific importers tells the market about their strategies and how the winery wishes to be known. Finally, organizational characteristics such as where the winery resides, its corporate structure (family owned, one of many within a conglomerate, part of a consortium), and the people they employ (winemaker, marketing managers, staff) also send signals to the marketplace about who the winery is.

Ensuring that they are all congruent or partially congruent is no small task, but it is important. A winery could audit each of these elements to

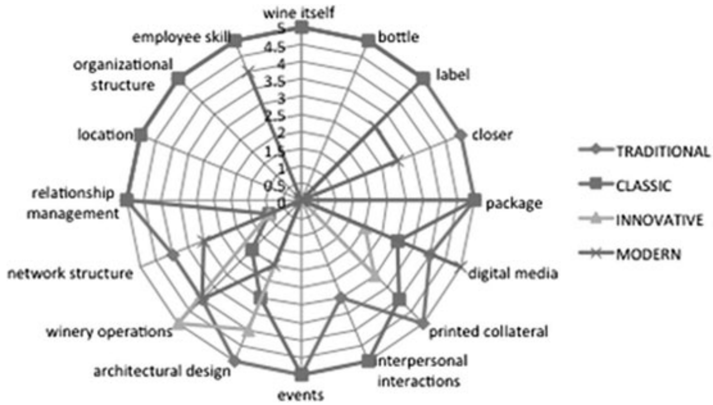

Figure 14.1 Corporate identity spider diagram.

determine how innovative, modern, traditional, and classic it is (it can be a bit of each). If each one is scored on a five-point scale, the winery can conceivably develop a "spider diagram" like the one in Figure 14.1. Describing the details of scoring and the multiple diagrams that can be created is beyond our intention here, but our message is that we can be a bit more rigorous than making an overall gut-feel assessment of whether a winery is sending a consistent, congruent, coherent message to the marketplace, and if not, where do the problems lie?

Benchmarking

We make a few comments here on benchmarking. Benchmarking means comparing your winery to similar competitors. Sometimes organizations benchmark outside of their industry, but usually not when overall business evaluations are conducted. If a benchmark is on a specific issue such as social responsibility sophistication, then possibly a company would benchmark off of a wider variety of firms.

When a benchmarking study is conducted, the first step is to select three to six firms that one would think are in the competitive set. Often companies also select a firm slightly more successful than their own. Then all organizations are evaluated as thoroughly as is possible given the data that can be collected along all of the processes, characteristics, outcomes, and so on that management wishes to know about. For example, our Banfi contact mentioned two Italian wineries in their region that they saw as competitors, Antinori and Frescobaldi. However, these companies were larger and more diverse. As such, they may not be ideal benchmarking candidates, but it would be okay if they were in the set. But clearly our contact had already made comparisons between marketing strategies. Benchmarking is not the same as a competitor analysis. It is designed to find companies you admire in certain processes and see how you compare in as much detail as possible so you can diagnose any problems you may have.

Doing It Yourself or Hiring an Audit Team

Finally, a winery should ask itself who should conduct any of these diagnostic tests. Should they be done by an internal team or should an external team be hired? Obviously, the cost is less with an internal team. However, that team may be biased and also may not have the breadth of experience to truly "see" what is happening because they may have no comparison standard; this may be the only organization they know. Hiring an audit team costs a little bit of money, but the team is likely to arrive with a clean slate and with insights into how other organizations are doing.

Summary

This chapter hopefully made you aware of the importance of metrics in assessing how well you are doing. Running a winery is serious business. It is intensely competitive. Without a diagnosis from time to time, it is difficult to know what to work on to keep moving forward.

CHAPTER 15

Conclusions and the Future of Wine Marketing and SCM

So here we are at the end of our stories. Our intent was to offer insights into some interesting perspectives and practices in the wine industry as we saw them over the last six years traveling the globe and interviewing winery owners, directors, wine makers, and managers. Our intent was not to provide a comprehensive practical guide to all things wine. We hope the book has opened your eyes to possibilities. If we did our job, you have seen areas where your or someone else's winery is doing well and other places where opportunities to do better exist. If you are at a winery, ask yourself some honest questions:

- How well do we really understand our customers?
- How rigorous are our market-research processes?
- How solid are our relationships with customers, intermediaries, and consumers?
- Do we manage our brands and our corporate identity as well as we could?
- In what ways are we working to improve the efficiency, effectiveness, and sustainability of our supply chains?
- How strategic and professional is our sales team?
- How do we see ourselves in this winery? Innovative, modern, traditional, or classical?
- Do we pursue innovation and/or experimentation regularly?
- In what ways are we diagnosing our performance?
- In what ways could we improve regarding any of these topics?

Image 15.1 Spy Valley Winery.

These are just a few questions that can be answered by each individual, using the details in this book as a standard to which they can compare. On that note, let's briefly review what we have covered.

Book Topic Review

In chapter one, we offered a quick overview of the wine industry. Our vignette was about Gustavo Wines. We provided some data on global wine consumption and production by country for the highest performing nations. The chapter presented information on varietal trends, primarily to point out that there are trends to which you ought to pay attention. You learned that simply following the fastest growing markets may not be the best approach to your international market selection.

Chapter two moved deeper into the concept of markets. That chapter opened with a vignette on Ricasoli. They have a firm understanding of the markets they target. We talked about macromarkets and the notion of country-of-origin, which tells us that people hold opinions about products that come from certain nations largely in part due to their perceptions of what that country is known to produce. We then discussed microsegmentation approaches such as demographic, psychographic, and behavioral. Contemporary approaches to markets discussed in the chapter included a significant amount of information on shopper marketing and social capital. As with most other chapters, we offered numerous descriptions of practices we saw in our research project. Finally, this chapter offered insights to customer targeting.

Chapter three introduces an important finding for our research; that is, each winery can have an "orientation" of some kind that silently influences their decisions and how they look at the industry. An orientation is a world view held by an organization such as a market or customer orientation, a sustainability orientation, an entrepreneurial orientation, a supply chain orientation, or even a sustainable supply chain orientation. They can create corporate identities around being traditional, classic, innovative, or modern, and many try to present themselves as combinations of these. The key point is that the philosophy of the wine producer's leaders and the overall orientation they drive serve as a foundation for all of a winery's marketing efforts.

Chapter four then took us into the fascinating and important world of relationships, relationship management, and relationship marketing. We discussed partnerships with distributors, retailers, and restaurants as well as clusters and associations.

We transitioned from relationships to innovation and experimentation in chapter five, where we discussed the many ways innovation can occur within the wine industry, with a focus on winery innovation. The chapter described attitudes and perspectives toward innovation, showed different forms of innovation, and emphasized that innovation is always in the eyes of the beholder. Experimentation occurs within the wine industry as a means for continuous improvement and sometimes for developing innovations. In this chapter, we explained about formal experiments in vineyards, and processes in products and marketing. We contrasted this with trial-and-error experimentation we saw around the world.

Chapter six was about sustainability. In addition to exploring marketing practices, we were particularly interested in attitudes and practices related to sustainability—financial, environmental, and social. We described certification associations and numerous examples of environmental projects. As an agricultural product, wine is naturally concerned with environmental sustainability. However, at times what might be good for the environment may not be good for sales. In some cases, the market demands certain attributes such as bottle or closure types that could result in an erosion of the perceived value of the product if changed to something more sustainable. Some wineries embraced sustainability throughout and thus could even be organic or biodynamic. Others were primarily interested in economic survival.

Chapter seven brought us to the topic of common or traditional branding concepts and brand management practices. We discussed brand architecture, brand equity, brand identity, and brand personality. Brands fit within portfolios, and portfolios need to be managed by controlling each brand with an eye toward its relationship to other brands in the portfolio. Finally, we discussed the differences between a branded house and a house of brands.

Brands must get to the market, and to do so requires careful consideration of supply chain design, the topic of chapter eight. We discussed various structures of relationships between businesses and why certain structures work for certain situations.

Chapter nine was about market research. We explained the importance of doing some if not deep market research, how doing this well enables wineries to discover information that their competitors do not take the time to find. This information can be used for differential advantage in a hypercompetitive industry such as the global wine industry. We described qualitative and quantitative research and why getting at meaning, processes, and culture is important. We explained surveys and experiments and other forms of research that help wineries better understand and serve customers as well as compete.

Chapter ten revisited the topic of branding but took it further into contemporary concepts such as storytelling and cocreation. We shared a wonderful story about Smith Haut Lafitte. Within storytelling, we explained the components of good stories and brand narratives and went deeply into ways to engage customers and encourage them to build your brand into their own stories. We introduced the five categories of elements that communicate a winery's identity and the identities of its brands.

In chapter eleven, the contemporary view of branding was extended into contemporary communication practices focusing on Communication 4.0. State-of-the-art communication leverages social media and networks like never before. This chapter went into great detail about communication models, and articulated the standards for engaging customers and other stakeholders in One-to-One, One-to-Many, Many-to-One, Many-to-Many, and even other models for communication.

Chapter twelve visited what might be considered one of the most prominent means of marketing in the wine industry—professional selling. Selling occurs everywhere. Some winery owners and account managers are masters at it, clearly. However, despite everyone meeting with customers, there seems to be a lack of formal training in professional selling strategies. And so this chapter went into detail on the basic components of selling as well as more advanced topics of strategic selling, covering topics such as the complex sale, key influencer roles, gaps, and social style adaptation.

As we neared the end of the book, in chapter thirteen we revisited the supply chain concept, this time focusing on supply chain management. Supply chain management has become one of the most critical disciplines in all of business as global supply and distribution have become commonplace. There is significant opportunity for wineries to take advantage of emerging practices here.

The final topic of the book was diagnosis, covered in chapter fourteen. It is important to assess how well one is doing and diagnose the health of the marketing and supply chain practices. This chapter covered numerous ways wineries can and do measure their performance, from wine ratings to competitions to surveys and key performance indicators.

This concluding chapter, chapter fifteen, is here to remind you of these many topics we have covered for you so that you can revisit them later as you contemplate your own strategies and tactics. It is also a chapter that gives us a brief opportunity to project into the future.

Image 15.2 Smith Haut Lafitte: The future is here.

The Future of Wine Marketing

Marketing in the wine industry will gradually become more sophisticated; it will follow trends in consumer packaged goods, food, and tourism marketing. Especially in consumer packaged goods, competition is intense and brand management is sophisticated. As social media becomes well entrenched even in the wine industry, wineries will begin to leverage and master it more. It will become common practice to remain constantly engaged with consumers despite the continued importance of intermediaries; consumers will demand it. Consumers are in charge and want to be part of the conversation. They do not want to be "sold to." They want to be engaged and they want experiences. Wine can be and is one of the richest elements of living a passionate life. Marketing it should not be merely about making the highest quality product a parcel can produce; it ought to be about enriching people's lives.

Selling and interpersonal relationships will continue to be critical for not only distributing products to desired markets, or even to "pass on" a winery's story, but also in being part of a social network that includes growers, wineries, distributors, restaurants, retailers, and consumers.

Retailing will continue to adopt sophisticated shopper marketing approaches in order to compete, and savvy wineries will assist retailers in designing and executing these initiatives. Currently, the ones doing well still rely on distributors for this help. It requires wineries to be deeply involved.

And conducting formal market research will become more common and a standard rather than something felt that only large wine producers need to do. Wineries will crave insights to intermediaries and end-user consumers that their competitors don't have. More wineries will become market oriented and not only product oriented. The care of product quality will and should never go away. However, more wineries will have a passion for understanding and connecting with precisely targeted customer segments.

Finally, sustainability will evolve for most wineries to mean more than environmental initiatives and you will see a strong effort to balance progress in long-term economic, environmental, and social survival. The environment will be well cared for but so too will local and distant societies and causes through collective efforts by clusters of wineries. Marketing one's sustainability efforts will be seen as genuine and authentic and not looked down on as "green washing."

We will also see more examples of innovation while trying to retain the traditional and classic aspects of this industry rich in its heritage yet always moving forward.

The Future of Wine Supply Chain Management

Supply chain management involves collaboration with business partners. The future will see more collaboration in wine supply chains to work on improvements in both efficiency and effectiveness in wine distribution. Improvements in supply chain design and management will enable markets to be reached at costs not seen before. Even small wineries can be global on a regular basis.

Wineries will work with partners to close the supply chain loop, taking advantage of recycling and reverse logistics. Partnerships will become better at reducing carbon footprints of landed products as we will see less focus only on one's own operations, and increased concern for cost sharing and joint responsibility.

Final Words

We hope you have come across at least one idea that will be helpful to you. If all you do is gain one key idea from this book, it is likely to yield worthwhile returns on your investment that far exceed the monetary cost to purchase it and the time to read it. We have thoroughly enjoyed this project. It has taken us to many fascinating and beautiful parts of the world. We have met amazing business people and, in fact, developed new friendships. We fell more deeply in love with wine and all of its variations. We learned things we did not know before we started and have helped organizations along the way by applying what we learned combined with what we already knew. And we became closer as friends among our team as well.

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Wineries and organizations are in **bold.**