

MARKETING TERROIR WINES

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ABSTRACT

The markets for quality wine are becoming more competitive as newer producers emerge and traditional producers improve their quality. The concept of terroir is one way to differentiate wines in a competitive market and to enhance producer income. However, differentiation of wines is insufficient to assure profitability. If producers are to exploit the concept of terroir they will need to develop a sound market plan that identifies and evaluates target markets, describes product attributes and how they meet consumer needs and wants, and establishes appropriate distribution and promotion programs. Both producers and their associations will need credible market research on which to base market decisions. Strategies that emphasize grabbing market share will not enlarge the wine market in the long term. A portion of promotional activities should be directed toward expanding all wine consumption.

1. INTRODUCTION

Wine is a beverage of tradition searching for a way to compete in an increasingly nontraditional world. New producers are emerging, market behavior is changing, and competition is intensifying. No wonder that wine-makers are re-assessing their positions and seeking ways to identify their wines as different and better than competing wines. Using the concept of "terroir" is one way to achieve this. There are other ways to differentiate as well.

The terroir concept needs to be combined with the numerous elements of a comprehensive marketing strategy and then tested for its profitability. This report is addressed to growers, winemakers, and regional associations seeking to exploit their defined terroir. The objective is to show how the concept of "terroir" fits with other differentiation strategies and how it should be integrated with all elements of a marketing strategy. The results apply to marketing programs at both the regional and enterprise level.

2. MARKETING CONCEPTS

Wine marketing involves the classic elements relating to product, packaging, promotion, price and distribution. These elements can be individually varied and mixed together to provide an overall marketing strategy that seeks to create a sustainable competitive advantage. The pillars of sustainable advantage are consumer awareness of the brand or terroir, loyalty to them, a credible perception of quality, favorable associations with the brand or terroir (the image factor), and other proprietary brand or terroir assets such as low costs, unique pro-

duction or product features (such as terroir), and quality of packaging and promotion'. The challenge is to continually build brand equity, or in the case of terroir, to build the value of the terroir designation. This will occur only if consumer needs are being met.

Consumer needs differ among and between geographic, demographic, and use defined markets. These needs are often not directly related to wine attributes but can be met through promotional and other efforts that build an image that meets such needs. Typical consumer needs are for value, self status, less purchase and use risk, "good" taste, consistency over time, convenience, and simplicity in purchase and use. The perception of quality depends on the how well these needs are met.

2.1 PRODUCT DIFFERENTIATION. The concept of product differentiation includes all the strategic decisions that seek to distinguish the product among competing products, to enhance its price and or the revenue it generates. The goal is make the wine a "product" and not a "commodity." This can be done only by adding value in the consumer's eyes. Many strategies relating to product style, packaging or distribution lose their impact over time since they can be copied by competitors. Hence firms need to change their differentiation strategies continually. In this respect, differences based on terroir, appellation and to a lesser extent, brand are more sustainable. Terroir provides a basis for differentiation. It encompasses all the location factors that make a wine what it is. However, there are other and more intangible factors that affect how one wine is distinguished from another. These include the price bracket, brand name, value for money, promotion activities, producer reputation and personality, awards, endorsement by publicists, wine education, outlets where sold, negotiant or distributor decisions, and the quality of sales representation². Because of the complex interaction of the factors influencing consumer perceptions of quality, the term "terroir" used on a wine label may or may not be profitable, depending on the market and the product.

The bases for differentiation are not independent. Regional designation, variety and brand may be used interchangeably depending on the market being served. Rivelia³ points out the value of regional designation (appellation) in marketing wines by citing the success of such wines in the U. S. market in competition with other European wines using just brand and variety. However, he argues that appellation of origin, grape variety and brand (marque) can be used together in appropriate markets to provide more complete information about wine and enhance its market penetration. He concludes that appellation is the predominant factor that allows consumers to focus more precisely on the likely attributes of the wine. Peter Botos⁴ showed, in a study of the Hungarian market, how the relative importance of regional designation, brand and grape variety varied depending on the price of the wine and the market being targeted.

2.2 PRODUCT ATTRIBUTES. Knowledge about the product attributes that customers value most is key to understanding the market. It will help in calculating the degree to which "terroir" influences purchase decisions for particular products in specific markets. Market research, based on surveys, focus groups or other empirical methods, is needed to define the appropriate attributes and measure consumer evaluations of them. One market study identified four major classes of attributes: quality, price, convenience and signaling⁵. They provide the basis for consumer choice among competing products. For some products one mix of attributes will be important while for other products a different mix will apply. The organization needs to determine which attributes, among many possibilities, are important in

motivating customers to choose its products. This information will assist in positioning the product in the market and in determining how to support the product through pricing, advertising, and promotion. This process of market evaluation is termed a "market audit" and is the forerunner of a marketing plan.

Quality attributes include product characteristics such as nose, taste, finish, and alcohol content. They also include reliability or consistency of the product over time and certain use characteristics such as "complements a meal", "adds to a memorable occasion" "good to relax with", and "good for a romantic occasion". These are the attributes over which a customer will make a comparison between competing products. This approach fits with another definition of quality that distinguishes "classification" quality (e.g., legally based certifications of origin), "organoleptic" quality, and "perceived" quality (a combination of organoleptic and peripheral factors).

Price attributes allow the customer to make a judgment about product value. Are the other attributes worth the price charged? Customers are interested in their net price, including any discounts or coupons available. Thus the organization needs to identify and analyze the unit price, volume discounts, coupons, family discounts or other incentives offered to retail or wholesale customers. Convenience attributes include ease of use, or availability in desired packaging such as small bottles, bag-in-box or plastic containers. They also include availability in frequently used stores such as supermarkets or convenience stores.

Signaling is the attribute that suggests some of the product characteristics and values to a potential buyer. In reality, they may or may not be an accurate predictor. The signals include price, dryness, brand, varietal designation, appellation, and packaging (bottle and label). This classification is similar to that of "brand associations" in brand management literature.

2.3 CONSUMER PERCEPTIONS. Consumer perceptions of quality vary within and among markets and depend on a combination of organoleptic and peripheral factors. Consequently, the importance of components in the marketing mix varies depending upon the target market. The following scheme demonstrates this by ranking the influence of various factors on purchase decision for wines in different price classes (Table 1).

Table 1. The Ranking of Marketing Factors According to Price Class of Wine

Market Factor	< \$4 per 750ml	\$4-9 per 750ml	\$9-18 per 750ml	> \$18 per 750ml
Image, Pedigree	5	5	2	1
Sales and Distribution	2	2	1	2
Promote Brand	4	4	3	3
Selling Price	3	1	4	4
Production Cost	1	3	5	5

Source: Rich Gooner, "Basics of Brand Positioning," OIV/Davis, 1997; based on U. S. market experience.

Appellation and "terroir" and other quality signals are in the factor identified as "image and pedigree". Note how its ranking varies relative to other factors according to the price of the product.

The key point from this analysis is the significance of sales and distribution strategies to the overall success of wine marketing. They are ranked in either first or second position across

all price classes. Image, on the other hand, is tremendously important for high priced wines, but the least important in influencing purchases of low cost wines. According to these findings "terroir" would be of limited importance for wines sold at less than \$9 per bottle in the U.S. market. Brand would be only slightly more influential. This ranking scheme does not take into account the interaction, in the consumer's mind, between price and image or quality. High price is often viewed as an indicator of high quality, although not necessarily of value.

2.4 MARKET SEGMENTATION. Marketing strategies must be based on a clear understanding of the markets to be served. Wine marketers recognize three basic types of markets: the mass market, the product differentiated market and the niche (or target) market. The mass marketing strategy provides one offering for all customers. This is the strategy of Coca Cola. For terroir wines, it would imply a basic set of wines from an individual terroir sold in all markets. The advantages of this strategy are in the economies to scale gained in production and promotion. The disadvantage is the inability to fit the needs of important sub-markets.

Product differentiated marketing strategy offers two or more products, each with different features, to the same target market. Thus, terroir wine-makers might offer different wine qualities or different packaging to the same market. The principal advantage is the building up of brand loyalty in the market. The main disadvantage is that the region (or wine-maker) is dependent entirely on a single market.

The target-market strategy selects products that fit the requirements of specific markets. The advantage of this strategy is that it diversifies market risks, allows higher prices and reduces the level of competition experienced in the mass market. The disadvantage is that it does not permit realization of economies to scale and that it increases marketing costs relative to mass marketing. The target market strategy is based on the ability to identify and evaluate product attributes and consumer perceptions that define specific market segments. The objective is to find clusters of consumers that are internally homogenous yet externally heterogeneous. Attitudes toward wine is one basis for clustering. Market research has found that there is not a great deal of demographic difference between regular wine drinkers and marginal wine drinkers yet there are significant differences in their attitudes, knowledge and approach to buying wine.⁶ Thus one can develop a terroir wine marketing program, for example, toward marginal users where competition is moderate rather than toward regular (or frequent) users where competition is very severe. In the United States, for example, there are approximately 42 million marginal wine drinkers (aged between 21 and 59 years), and of these 31 million say that they "like wine".⁷ This population of people who like wine but don't drink it very often is 40% larger than the total population of regular wine users. It's a tempting target, and one that is removed from the intensively competitive core market.

To be attractive, a market segment needs to be receptive to a common marketing strategy. Each segment has to be large enough to be financially attractive, it has to be accessible and the strategy needs to be operational. By positioning wines in such niche markets, terroir managers should be building the market value of their terroir.

The appropriate segmentation strategy depends on the nature of the product and the characteristics of the market the seller proposes to serve. If few differences can be found among potential market clusters, then a mass marketing approach is best. Alternatively, if unique segments can be identified that will produce greater profit when served individually rather than collectively, then a target market segmentation is called for.

3. MANAGING THE MARKETING OF TERROIR WINES

As the preceding discussion reveals, market research is indispensable to a successful marketing program. Thus the first step in developing a terroir marketing plan is to conduct the research that will guide its formulation. Prominent examples of such research are published by ONIVINS in France, the Wine Marketing Council in the United States and the Australian Centre for Wine Business Management.

3.1 THE MARKETING PLAN. A marketing plan is essential if the benefits of a terroir designation are to be realized. In developing a marketing plan, the organization needs to describe the targeted market segment, identify the closest competitors as defined by the target customers, determine the unique selling proposition that will motivate customers to choose the organization over the competitors, and develop an ongoing system to monitor changes in customers, competitors, and strategies. The market should be described in terms of its size, the product attributes desired by customers, the frequency of product use, and where the customers prefer to buy wine. Competitors recognized by customers produce those products that the customers would otherwise purchase; they include beer and other beverages.⁸

Perhaps the most difficult part of the plan is to define quantitative and qualitative objectives. Quantitative objectives include the levels of volume, market share, and revenue to be gained. The planner must determine if production is adequate to meet growth objectives, and how added supplies can be obtained. Market share objectives depend on the volume sold and on how the market is defined. This requirement should stimulate a careful analysis of potential target markets. The plan should include the degree of geographic coverage to be attained.

The qualitative objectives relate to the establishment of a terroir (brand) image, increasing buyer awareness of the terroir (brand), and how the wine will be positioned in the market. As part of the process the planner needs to identify the product features and benefits that will appeal to consumers (as opposed to producers), to define the target audience and how to reach it, and to communicate directly to key members of the trade about the planned product promotion and advertising activity.

The objective in building a powerful brand (terroir) image is to stimulate sufficiently strong demand to pull the produce through the distribution chain instead of the seller pushing it through. For this to work, the wine must be differentiated in the eyes of consumers, retailers, restaurateurs and distributors.

3.2 TERROIR MANAGEMENT. Business concerns have emphasized brand management as a critical function for most of the twentieth century. Brands are not much different in principle, than terroir since both are designed to add product value and separate the product from its commodity class. They do differ, of course, in terms of permanence; brands may come and go but terroir stays on forever. Nevertheless, the principles that guide brand management should hold for terroir management as well. This link is important since the practice

of brand management has changed significantly over the past decade. Old-style brand management drove short-term sales by focusing narrowly on planning, implementing and reacting.

The new approach emphasizes the building up of brand equity, that is the value gained by the enterprise from using the brand or terroir. It starts with a vision of how the brand should be perceived in the future. A key organizational element is a brand strategist heading a team focused on enhancing brand equity (value) and reducing price pressures facing the business. Concern with brand equity is a valuable concept to use in marketing terroir wines. The factors important to building brand equity include: brand awareness, brand loyalty, perceived quality, brand associations, and other proprietary brand assets (cost advantages, quality of packaging and promotion, quality and cost of distribution). These factors help define competitive advantage.⁹

3.3 NEW PRODUCT DEVELOPMENT. Beverage customers have become accustomed to change as new products appear and older ones disappear with regularity. New product development among quality wines is more subtle than this. It usually involves a change in blends, or fermentation and aging techniques that alter flavor characteristics. It may involve new labels or packages. But rarely, if ever, are quality wines changed so that they are truly a "new" product. Thus new product development in quality wines really is a strategy of product differentiation among competing wines, designed to gain an advantage for one competitor over another. Differentiation based on terroir is one such strategy, although it does not produce a new product but rather seeks a better position for existing products. Terroir winemakers cannot rely on designing the wine to meet consumer needs, but rather need to focus on how to combine the other market mix factors in a way that stimulates consumer purchases.

3.4 SALES AND DISTRIBUTION STRATEGIES. Making distribution work effectively is difficult. The wine market is structured in such a way that the distribution networks have enormous power relative to the usually smaller scale quality wine producers. Consequently it helps to have a distributor policy that articulates the wine-maker's philosophy about the wine and expectations for it. It should outline the functions to be performed and by whom. Distributors want a succinct, well thought out plan of how the distribution relationship should work in their market and that is operational from their standpoint. This statement of policy is not a legal document and is not the actual distributor agreement, but it sets the context within which the agreement is reached. It will provide the basis for terroir managers in persuading distributors to carry out the terroir marketing plan. This idea is not far fetched if managers are willing to consult with distributors during the development of the marketing plan.¹⁰ Collaboration with distributors is critical since the channel in which Wine is sold affects its price, presentation, how the product is perceived, and its relationship to competing products. The channel choice also must account for the ease of administration and any constraints inherent in the product.

Selling to a wholesaler or large retail chain may require setting a lower per unit price than would otherwise be required. The seller also loses control over the retail pricing strategy and may end up with wines positioned against competitive products not anticipated. The place of sale will also influence consumer perceptions of the wine. For example, selling in a mass outlet may degrade the quality of the wine as perceived by the buyer. On the other hand, selling in sophisticated outlets may enhance the quality perception beyond what can be delivered by the product. The decision as to outlet must be made primarily on the basis of

where the targeted consumers want to buy the wine. Terroir wines might be better positioned in speciality wine stores where sales persons can explain the benefits of terroir wines rather than in supermarkets where such sales assistance is not provided. A careful consideration should be made of how wines are presented in various outlets. Poor shelf positions result in lower sales just as "end of the aisle" special locations significantly enhance sales. Sellers can influence the location of wines in retail stores but must make special efforts to do so.

The choice of a channel is also influenced by the channels selected by competitors. A seller may or may not want to be sold in the same outlet as competing wines. This consideration has led to some wine-makers choosing to sell directly to consumers or to limit sales to only restaurants. Finally, ease of sales administration should be considered. Selling through a large number of channels may produce the greatest volume of sales but also may be the most expensive alternative to choose. The seller must decide what combination of channels produces the most profitable results.¹¹

3.5 PROMOTION STRATEGIES. Research results demonstrate that product promotion is profitable if it is well conceived. It tends to work better for differentiated products, such as wine, than for commodities where competitors tend to "free ride" on the promotional efforts of others. Millions of dollars are spent annually throughout the world to advertise wine and other agricultural products. Many of these programs are cost effective, returning far more in increased revenues than their cost. Numerous studies suggest that advertising is under funded, that is, more profit could have been made if the advertising effort had been increased. This appears to have been the case for generic wine advertising in the United Kingdom and Germany in 1990.¹² The implications for terroir management are significant since an important objective is to build a valuable image for the specific terroir.

The first thing a terroir manager should do in considering a promotion and advertising program is to define the objectives of the program. The second consideration is the budget and the third is the media plan that outlines the creative message and how it is going to be delivered. The program must integrate advertising into the entire marketing plan for the brand or terroir. Advertising and promotion are just small parts of the total plan which outlines growth, market share, and distribution objectives.¹³ The creative message used for promotion or advertising should address product image. The seller needs to take a critical look at the current product or terroir image and how aware consumers are of it before going further. Then the seller can then decide where to go with that image. Advertising is effective in increasing brand or terroir awareness. Advertising, and promotion generally can help in re-positioning the brand (terroir) in the consumer's mind. Of course, advertising cannot target consumers alone. The wine maker needs to influence the distributor to increase the price or to re-position the wine through distributor directed promotional programs. The terroir manager must work with the seller's internal sales force, the distributor, key members of the trade and other buyers in coordinating advertising and promotion efforts. Finally, it is essential that advertising and other promotion efforts be evaluated for effectiveness. There is ample literature to guide managers on how to do such evaluations.

4. SUMMARY

The message for wine producers is that quality is a necessary but not sufficient condition for success. Wine quality is improving throughout the world, thus the ability to produce quality wines is just the "ticket of admission" for competing in the local as well as global market. Intense efforts at product differentiation will be required to succeed in tomorrow's mar-

ket. Competing on price alone will not work. There will be an enormous volume of quality wines from which consumers might choose. Producers need to think in marketing terms if they are to effectively exploit the potential advantages of terroir production. To gain this insight, they might benefit from marketing and management training programs for themselves and their associations, as many firms are doing by participating in OIV-sponsored educational training courses. Producer and association marketing programs should be based on strong plans that include production, financing and organizational considerations. The plans should articulate appropriate terroir, brand and variety strategies for each level in the wine industry. They also need macro and micro economic components, including concepts for joining with other producers or associations to expand the demand for terroir wine in domestic and export markets. The objective is to make a profit by convincing consumers that they will benefit more from the specific terroir wines than from competing wines, even at a higher price. The appeal may be through a geographic image, such as that of "terroir," an appeal to a particular market niche using a brand, or through a modification in varieties or blending that produces a new and desired product. When wine demand increases, all producers have the opportunity to benefit. Strategies based on stealing market share from others may work in the short run, but over the longer term will not bring supply and demand into profitable balance.

NOTE

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