WHY QUALITY IS NO LONGER ENOUGH? STRATEGIC MARKETING EVOLUTION IN THE WINE INDUSTRY

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Abstract

Evidence for the success of relationship marketing (RM) remains contradictory, with practitioners reporting that most RM efforts fail, and academic researchers suggesting that further exploration of the boundary conditions of RM are needed. A number of researchers have identified changes in the competitive environment as the basis for the adoption of RM, although recent research suggests a more complex, contingent view. This paper identifies a number of contextual conditions that influence the development and evolution of relationship strategies drawing upon longitudinal case studies from the New Zealand wine industry. The

findings identify changes in the form and intensity of relationships. The source of these changes is identified. Based on this analysis, four marketing 'gestalts' are identified. The evolution of each gestalt is then explained, with the approaches used by firm's to navigate from one gestalt to another identified.

Introduction

How firms deal with increased complexity, dynamism, competitive rivalry, and anticipated changing market requirements are critical areas for marketing research (Day and Montgomery, 1999). A number of authors have proposed that market relationships would assist firms to navigate complex, turbulent environments (Hennig-Thurau, Gwinner and Gremler, 2002; Day and Montgomery, 1999; Sheth and Parvatiyar, 1999; Grönroos, 1996; Morgan and Hunt, 1994). Relationship marketers urge firms to form long term, mutually beneficial, interactive, and interdependent relationships with key stakeholders, as a means of improving a number of performance metrics including customer retention, satisfaction, loyalty, profits and sales and build tacit competitive advantages (Saminee and Saeed, 2003). Despite this, the research on the benefits of RM remains contradictory (Achrol and Etzel, 2003; Joshi and Campbell, 2003; Fournier, Dobscha and Mick, 1998).

The desire to identify a relationship between the changing competitive landscape and the evolving appropriateness of RM strategies is what motivated this paper. A number of authors have identified links between the use of relationships and environmental factors, including market dynamism, market beneficence, and degree of competitive rivalry (Achrol and Etzel, 2003; Joshi and Campbell, 2003; Jap, 1999; Heide and John, 1990; Stump and Heide, 1990; Dwyer and Welsh, 1985; Porter, 1985). This research seeks to explore a number of questions.

Firstly, given the support for a relationship between environmental dynamism and the appropriateness of relationships (Achrol and Etzel, 2003), we seek to identify contextual conditions moderating the use of RM. Secondly, if RM activities are more appropriate under some contexts than others, does this mean that the form and intensity of relationships changes over time? For example, relationship success is predicted to be determined by meeting customers' needs through the continual correct delivery (i.e., balancing) of utilitarian and relational benefits (Hennig-Thurau et al 2002), while other researchers have highlighted the benefits of firms increasing the closeness of their relationships in order to deal with increased environmental dynamism (Joshi and Campbell, 2003). In contrast, research has also indicated a relationship between market evolution and relationship use, highlighting the benefits of relationships in markets in their early stage of evolution, and the need for firm's to place less emphasis on relationships as markets mature (Achrol and Etzel, 2003). Finally, how do firms manage the evolution of RM activity (Day and Montgomery, 1999), given that firms must adjust their strategic posture to match the rate of market dynamism (Achrol and Stern, 1988)?

The article is organised as follows. Firstly a review of the market dynamism-relationship appropriateness literature will be conducted. A methodology section covering sampling, research instruments and data analysis is presented. Following this is the presentation of the findings. As the findings are complex, we begin with a presentation of the general model that emerged, and then organise the findings around four key 'gestalts' (a complex interaction between the environment, the firm, and strategy; Kazanjian, 1988). We then track the evolution of each gestalt, identifying how the form and intensity of relationships evolved over time, and why some firms were more effective at maintaining relationships and navigating competitive environments than others. Following this will be a section identifying the theoretical contributions and managerial implications of the findings.

Literature

Practitioners report that most RM efforts fail to achieve their goals (Crick and Lyman, 2002). Others have suggested that a ‘one size fits all’ approach to relationships has resulted in RM suffering a premature death (Fournier et al, 1998). Although relationships are believed to encourage customer loyalty (Crosby, Evans and Cowles, 1990), this loyalty will be determined by the appropriateness of the relationship from the point of view of the customer (Hennig-Thurau et al 2002). Others have called for greater understanding of the boundary conditions of RM, in an effort to identify the appropriate use and degree of RM activity (Parvatiyar and Sheth 2000; Price and Arnould 1999; Fournier et al, 1998).

Recent research has begun to address the environmental appropriateness of RM activity, by drawing on contingency theories (Achrol and Etzel, 2003; Joshi and Campbell, 2003). This suggests that firms need to ‘fit’ RM strategies to their environmental and strategic context (Grewal, Comer and Mehta, 2001; Achrol and Stern, 1988). Open systems theory proposes that firms are dependent on their task environments for resources, leading firms to adapt to changes in the environment in order to remain successful over time. For example, Achrol and Etzel (2003) theorised that channel member goals were influenced by the characteristics of the task environment – namely environmental dynamism and munificence, and stage of market evolution. Achrol and Etzel (2003) proposed that greater coordination among channel members would enhance adaptiveness in mature markets, while under conditions of resource scarcity, more competitive behavior would come into play. However, they found that in mature markets (characterised by low munificence) integration goals (building coordinated relationships) were unrelated to performance. In mature markets, firms were encouraged to

emphasise productivity and adaptation goals rather than integration goals. While adaptation goals were found to be critical across a range of environments, integration goals had a positive effect only in growth stages of market evolution (Achrol and Etzel, 2003).

Joshi and Campbell (2003) also identified the link between environmental dynamism and relationship closeness in business-to-business channels. However, they noted the effect of environmental dynamism on relationships was theoretically and empirically ambiguous. For example, Porter (1985) proposed that in dynamic markets, firms should invest less in current relationships in preference for new relationships, more appropriate to the changed market reality. In contrast, research has also shown that dynamism in the technological environment encourages closer relationships (Heide and John, 1990; Stump and Heide, 1990). Hallén, Johansen and Mohamed (1991) identified that relationships based on trust and commitment led to greater adaptiveness. Firms may use relationships to counter potential opportunism, and thereby develop norms to ensure continuity and reduced opportunism (Lusch and Brown, 1996). Joshi and Campbell (2003) proposed an inverse relationship between environmental dynamism and relational governance, pointing to the experience of major automotive manufactures who dramatically reduced their supplier base as markets became hypercompetitive.

The different views on the role of relationships in different environments were also driven by different views on the ability of firms to adapt (Joshi and Campbell, 2003). For example, those proposing that relationships hampered the ability of firms to adapt in dynamic markets supported the view that firms were unable to learn, and as such, environmental changes led to revolutionary change. In contrast, those proposing that firms should increase the depth of their relationships in dynamic environments (as relationships provide greater flexibility)

believed that firms could learn (Jap, 1999), supporting an emergent view of relationship development and continuity. Joshi and Campbell (2003) found that relationship governance and environmental dynamism were positively related when manufacturer collaboration was high and supplier knowledge of customer needs was high. Thus firms motivated to learn from one another and engage with one another were likely to enjoy long-term continual relationships, which in turn, encouraged them to collaborate more closely in dynamic markets.

Method

Since we were seeking to develop theory, and understand the complexity of strategic change in an increasingly dynamic wine market, we chose a longitudinal, embedded case design (Yin, 1994) in the New Zealand (NZ) wine industry. The mixed findings for the appropriateness of relationships, suggests that the successful implementation and management of RM is a complex, dynamic process. Also, integration efforts might have a longer-term effect, and impact on adaptiveness in more complex ways than previously thought (Achrol and Etzel, 2003). In relation to how channels evolved and how firms responded to changes within their environment Day and Montgomery (1999) identified the need for rich, longitudinal qualitative research. Anderson (1995) identified the need for longitudinal case studies of relationships in business markets and the development and evolution of supplier-customer relationships, recommending the use of multiple case studies that were embedded within a wider historical context.

Interviews of NZ wineries, their distributors, retailers, and wine experts were conducted longitudinally over the period 1996-2002. The methodological approach follows that of Price

and Arnould (1999) whereby each study aimed to replicate and extend previous findings, as well as investigate emergent or major environmental changes. The sampling was theoretical, relational and discriminative, in order to expand theoretical concepts, link them to one another, and provisionally test the emergent theory's limitations (Glaser and Strauss, 1967). Therefore, cases were selected, both for their ability to contribute new insights to the emergent theory, as well as in the expectation that these insights would be replicated. As a result, we gained both theoretical breadth and category saturation. The study began in 1996 with an exploratory study (based on 10 interviews) at six wineries. Firms were asked to reconstruct the history of their approach to export markets as well as identify their current approaches and what they believed drove any changes in that approach. Following this, a report on the recent (post 1980’s) business history of the industry was developed based upon a number of popular and academic books, articles, and industry reports, as a means of providing some further context for the findings.

The respondents were re-interviewed in 1998, although the interviews this time included dyadic interviews with the wineries’ UK-based retailers and distributors (all of which were conducted via telephone), as well as interviews with members of industry bodies responsible for generic export marketing programs, and the wine press. In total 16 interviews were conducted (four distributors, eight winery export managers from study one and four wine writers and industry export body members). A number of new wineries, which had been identified by members of the industry as successful exporters were also interviewed during this time. A further study of salespeople (30 interviews from the wineries in study one and two, and 15 interviews with sales staff from other export oriented wine firms) was also undertaken; examining how sales practice had changed in the industry. In 1999 a further 18

interviews (nine dyadic buyer-seller relationships) between NZ wineries and their UK agents were conducted.

The fifth study (involving interviewees from studies 1-4) was carried out in the end of 1999 and throughout 2000, and involved 24 interviews with wineries, 24 interviews with export partners and 12 with relevant commentators to provide further contextual data (these interviewees could often provide information on consumer trends that helped triangulate the views of the wineries and distributors. Also, they were often in contact with a large number of NZ-based and overseas wineries and could provide important insights in the changing marketplace and strategic approach). Whereas the previous studies had been concerned with market challenges and marketing practice, this study was also concerned directly with firms' strategic evolution, examining each firm's historical development from start-up. In 2002, this was followed up with a further 10 interviews of UK-based distributors and retailers.

In total, the authors conducted 159 interviews over a six-year period. On average, each interview lasted for two hours. This resulted in over 2,000 pages of transcripts. In all the studies, questions were standardised around a number of topics relating to marketing, including general market trends, changes in distribution, consumer behavior and marketing strategy, and the effectiveness of those strategies. Questions were kept deliberately broad to allow interviewees as much freedom in their answers as possible (Glaser and Strauss, 1967).

Following grounded theory guidelines, analysis of the verbatim transcripts occurred soon after the first few interviews, allowing interpretations to inform and direct subsequent interviews (Glaser and Strauss, 1967). Our analyses were iterative (Spiggle, 1994) and tacked back and forth between these interpretations and standard grounded theory coding (i.e., open,

selective, and axial) (Strauss and Corbin, 1998). The analysis of interview data was carried out using Eisenhardt's (1989) two-stage method of within case and cross case analysis. Within-case analysis involved writing up a summary of each individual case in order to identify important case level phenomena (Eisenhardt, 1989). The summary was based on interview data, plus over 200 secondary sources from the popular and wine press on each firm and distributor. Following this process, a coding scheme was developed, to assist with the cross case analysis (Strauss and Corbin, 1998). Cross-case analysis involved searches for cross-case patterns, through the use of a series of cross case tables. QSR: NUD*IST was used throughout the analysis process as a means of keeping track of the data, facilitating coding, and checking for relationships.

In all situations, case studies and interpretive reports were returned to participants for comment, which helped enhanced the validity of the method. Secondary data further triangulated the cases (Strauss and Corbin, 1998; Glaser and Strauss, 1967), with the authors reviewing over 500 documents. These consisted of reports from the wineries, industry reports, published histories, industry journal articles, global reports, specific wine related research, trade magazines, books, newspaper articles, and industry conference proceedings. This process, and the use of multiple sources of evidence also helped improve the validity of the research (Yin, 1994).

Findings

The within case and cross case analysis revealed a number of clear themes emerging from the data. Firstly, a relationship between the wider market environment, and firm's strategic and tactical response was identified. As part of this, firms altered the form and intensity of their

relationships due to changes in the degree of competition, number of opportunities, and market beneficence. Firms also altered the form and intensity of their relationships due to internal strategic choices, such as increased size, a desire to target new niches, and changes in strategic posture. Firms were also able to learn from their relationships, and therefore often increased the intensity of their relationships in an effort to exploit opportunities presented by a more dynamic marketplace, or respond to threats posed by that environment. However, firms also ended relationships, put relationships 'on hold', and developed new relationships in response to the same market forces.

The respondents identified two key environmental drivers of their marketing strategies: an increase in the number of competitors, and changes in the growth rate of their respective markets. This was confirmed by secondary analysis. For example, in 1991 there were 150 wineries in NZ, and domestic sales were growing exponentially (at 41.1 millions litres out of 49.9 million produced and up to 12.1 litres per capita per annum from 11.7 in 1990) due to increases in wine quality, external endorsements, and most importantly the removal of legislative restrictions of the sale of wine in supermarkets (the number of distribution and retail outlets for wine increased from 4,105 in 1980 to 8,698 in 1993, and wine sales in supermarkets went from zero in 1991 to 36% in 1996, and over 50% by 2000). By 1996 there were 238 wineries, and domestic consumption had fallen (down to 35.6 million litres out of 57.3 million produced and down to 9.9 litres per capita per annum) due to consumers "drinking less but better". Firms during this time increasingly diversified away from domestic markets in favour of export sales (exports rose from 5.6 million litres in 1991 to 11.0 million litres in 1996). By 2001, the number of wineries had increased to 382, domestic sales had moved up slightly (37.4 million litres out of 53.3 million litres), although per capita

consumption had fallen (9.6 litre per annum). Diversification in favour of exports continued, with sales up to 19.2 million litres in 2001 (Beverland, 2003).

During this 10-year period, production also increased dramatically (although this was also moderated by climatic conditions) and seems set to continue to do so. For example, in 1991, the total area under vine was 5,440 hectares and the total crush was 65,708 tonnes. The producing area (hectares) grew from 5,440 in 1991 to 6,610 in 1996 and then grew dramatically to 11,275 by 2001. Due to the delay between planting and production, significant amounts of production capacity are likely to come on line in the next three (for white wine) to five (for red wine) years (Beverland, 2003).

During this 10-year period, NZ wineries also diversified away from lower priced niches (which they had historically dominated in the domestic market) in favour of high value export sales. For example, export value was NZ$25.3 million in 1991, rose to NZ$60.3 million in 1996, and again to NZ$198.1 million in 2001 (despite a low quantity vintage in 2001 – down from 75,300 tonnes crushed in 1996 to 71,000 tonnes). Cask (or box) wine sales also fell below 40% in 1996 and the Wine Institute noted that no bulk wine was produced in NZ by 1998. This increased emphasis on quality is also represented by the change in input and output ratios (known as the yield, which is believed to have a direct impact on quality). For example, the producing area grew from 5,440 tonnes in 1991 to 11,275 tonnes in 2001. However, the crush size grew from 65,708 tonnes in 1991 to only 71,000 tonnes by 2001 and production dropped (down from 57.3 million litres in 1996 to 53.3 million litres in 2001) (Beverland, 2003).

Increased competition and decreased domestic growth rates had a direct effect on the marketing practices and strategic posture of the firms. For example, the following small winery compared the ease with which he established his brand in 1989, with the demands of the market in 1999.

> The label was relatively easy to establish because at the time there weren't that many, and I think again that's about timing. I'd hate to be starting a label now because when we started there were barely 100 wineries in New Zealand and now there are over 300. So that wasn't an issue. At the time when we came, there were probably four to five wineries in Martinborough that had been going for maybe five years, and then there were a whole raft of us coming on stream more or less at the same time. It wasn't an issue, as the demand for Martinborough wine generally was high and the New Zealand wine industry had problems keeping up with demand. (Study 5)

The above quote was representative of the wineries interviewed (although not all responded to the increased dynamism successfully). The analysis also revealed four clear eras' of marketing practice. These are provided in Figure 1. Each quadrant is effectively a gestalt – that is a dynamic relationship between the environment, strategy and firm structure (Kazanjian, 1988). These gestalts are complex open systems, in that changes in one component (e.g., level of production) can have flow on effects for the other components (e.g., the need to enter into new niches, and effectively compete with larger firms). Historically these eras can be broken down into emergent marketing (1985-1990), order taking (1991-1995), transactions 4P's (1996-1998) relationships and 4P's (1999-onwards). In each approach the form and intensity of relationships changed, as did the scope of relationship activity. At the firm level, the systems, structures and strategic posture of firms that successfully navigated each quadrant also changed.

Insert Figure 1 in here

Figure 1 identifies that the two environmental variables of niche density and carrying capacity played an important role in determining the right strategy for the times (i.e., achieving 'fit'). These three concepts, carrying capacity (the ability of the niche to absorb extra production, represented by the growth rate in sales) and niche density (the number of firms occupying a niche) (Swaminathan, 2001), and 'right for the time' (effectively 'fit') are borrowed from population ecology (Hannan and Freeman, 1977). Population ecology predicts that as a niche approaches its carrying capacity firms either have to migrate to new niches (choose new markets), or become more efficient at exploiting their current niche (Swaminathan, 2001). This need is moderated by the potential sources of variation available to each firm (Swaminathan, 2001), and suggests that firms who are better at exploiting a niche (by adopting a stronger niche focus) will survive and prosper for a time, even in environments characterised by low munificence. However, research also shows that exploiting these sources of differentiation are little more than 'density delaying' actions, whereby firms buy time from the eventual effects of continued falling growth rates and increased competitive rivalry (Hannan and Freeman, 1977). Eventually, firms will need to find new niches that they can exploit (Swaminathan, 2001).

In terms of relationships, the combined effects of niche density and carrying capacity led to changes in the scope of relationships (the number of stakeholders with which firms formed relationships), the form of that relationship, and the intensity of that relationship (see Tables 1-3). The analysis revealed a number of key players within the wine market. These effectively make up the 'scope of relationships'. Wineries could form relationships with direct customers (usually immediate resellers such as agents, distributors or retailers), indirect customers (other members of the value chain – for example, if a direct customer was an agent, an indirect customer was the distributor and / or retail buyer, and / or individual retail

store managers), and end users (consumers). Wineries also formed relationships with competitors and other stakeholders (such as tourist bodies, festival managers, local councils, endorsing bodies) and were compelled to enter into relationships with compulsory industry bodies (the Wine Institute of NZ). The form and intensity of relationships with each potential relationship partner changed due to increases in the gestalt components of environment and strategy.

The Evolution of Relationship Form and Intensity

Emergent Marketing

Table 1 identifies changes in the form of relationships. Emergent marketing (1985-1990) was the strategic posture adopted by the firms in environments characterised by low niche density (few competitors) and low carry capacity (low growth rates). In this gestalt, low carrying capacity relates more to market uncertainty rather than low sales per se. Effectively these firms are trying to develop a new niche, and as such are operating in a market at the early stage of evolution. For example, the quote below comes from a winery attempting to sell wine in Australia. Here the proposition ' New Zealand wine' was problematic as up until the mid 1980's much NZ wine was of poor quality, made from hybrid grapes. The owner had a different product, grown from high quality grapes, but was attempting to sell at a time when the market in Australia and NZ was going through a significant period of restructuring (the governments of both countries had paid growers to remove vines in 1985-6).

> I think the only obstacle we had was a very definite negative attitude in Australia toward Kiwi wines. I think the presentation we did initially to the trade was quite clever, the package was very appealing, and the wine was outstanding. That good initial planning helped introduce the wine to the trade, and that flowed through to the customer, who loved it, which helped sales for the 1986 vintage. (Study 5)

Insert Table 1 in here

For these wineries success was based primarily on convincing the customers (direct, and end consumers) that the wine was of good quality, or in some cases (particularly the UK), that NZ could make wine at all, or that wine could be made in a particular region (during this period a number of new regions were established within NZ). Here, any strategy had to first establish the product's credibility through trial (which helped reduce uncertainty). From Table 1, the wineries focused on selling to their direct customers. Due to the uncertainty associated with the label, a transactional approach was appropriate. For example, retailers often purchased after tasting the product, but would adopt a wait and see approach before committing to longer-term relationships. Wineries and retailers often reported that quality was used as a 'litmus test' – if the wine was good enough, they would then negotiate an order, which was always based around price, which often caused a number of crises for firms.

> The first crisis we had was when we had a retailer selling on commission in Wellington and I sent him a new vintage and he came back and said 'you want $NZ5 a bottle for this? You must be joking!' and at the time we had 700-800 cases, and we said 'how the hell are we going to sell this? The guy we are relying on doesn't want to get behind it, he is rubbishing it. (Study 5)

Due to the lack of retail outlets at this time (wine wasn't sold into supermarkets in NZ until 1991), and the lack of channels (outside hotels), the focus of the deal was often on price.

> As recently as nine years ago, there were fewer retail liquor licenses and wine producers than there are now. In those days, the industry had a much stronger production focus. What we produced probably influenced how we marketed the products and the relationship we had with our customers. I was working as a retailer, and representatives would come to me with deals based around price. I'd make decisions on price and then I'd stop. Now, it seems to be that customers need a stronger relationship with the suppliers and producers, and assistance from them, to take the product through the stores and out to their customers. Price points are still important, but other promotional activity and endorsements are very, very important. (Study 3)

Wineries tended to form few relationships at a customer level (including mail order customers, who in most cases were few and far between). The quotation bellow identifies a strategy common to most wineries during this time – pass the responsibility for marketing the products to distributors. Here, the product focus was necessary for future survival, as many firms still had production problems to work through, and the lack of resources often meant firms were forced to make trade offs between production and marketing expenditures.

> I think what you could say is that our end of the bargain is to produce the highest quality wine possible. The distributors then take care of the marketing. We treat the export markets just like the domestic markets and leave the responsibility for handling the market up to the distributors whilst we focus on quality. (Study 1)

In many cases sales were often direct to small specialist retailers, and therefore circumvented non-direct customers. Generally wineries didn't have the resources to advertise, and even if they did, little effort was put into forming relationships with end-users (the exception were those new specialist wineries which sold primarily through mail order). For those wineries sourcing grapes from growers, the legacy of distrust between wineries and growers (brought about by the vine pull scheme which allowed wineries to break contracts with growers), meant that wineries treated growers on an arm's length basis, and often purchased grapes on the basis of derived demand and quality, but made little effort to build longer term relationships, primarily due to an uncertain marketplace.

> A lot of family companies went broke, had to restructure. At that time there was quite a bit of bad and ill feeling within the industry and these things take time to work through. (Study 2)

Relationships with other stakeholders were formed on an ad hoc basis, although the primary relationship was a compulsory one with the Wine Institute. For most wineries, membership was treated as little more than a legal obligation, rather than as a strategic issue. Others often used this Institute as a conduit to form relationships with competitors. During this time, likeminded exporters often traveled to markets and conducted tastings for the trade, whilst

regional wineries often combined resources to develop a local festival, to provide greater exposure of the region's wine. Likewise, competitors often shared production based knowledge and production facilities, with more established competitors leasing out production capacity to newer players. For most wineries, this lack of strategic relationship use was a direct reflection of a lack of strategy beyond a product focus.

> We were selling it obviously through the cellar door but we also had a sales rep in Wellington who was one of the original partners and who had retired so he would go around the trade in a van and would sell the wine literally from the back of the van. Then the partners would do trips around NZ and would call in at liquor outlets and sell on that basis. The sales weren't good enough and you couldn't have gone on in that fashion. The industry was still pretty young but it was an approach with a very limited life that was going to get you nowhere in the middle and long term. (Study 5)

During the emergent phase, relationships tended to be at arm's length. Table 2 highlights the intensity of the relationships in each gestalt. Wineries, had few relationships with direct and indirect customers, and the degree of relationship with end-users depended very much on the time that the customer had been with the firm. Many firms were in the stages of developing mailing lists and making wines of such quality as to attract a new type of customer for the first time. As such, these relationships tended to be in an exploratory phase, whereby the end-users was still uncertain about the future state of the relationship, but were interested enough to go on a mailing list. This was particularly the case for smaller wineries, many of which often had higher prices due to lower economies of scale.

> Mail order sales are a good channel for brand building as it enables a lot of the direct marketing, particularly with your premium wines. (Study 1)

In other cases, relationships were quite strong, but with customers in a declining market. For example, many wineries noted how they had long standing first name personal relationships with older consumers who still called in at the winery every month for a flagon of 'sherry' or 'port'. However, during this stage, production of these wines was in decline due to their low market size, low quality, and the unsuitability of NZ's climate to produce these styles. As

such, relationships with these customers, while strong, were with consumers in a declining market and a low-end niche. For many wineries, the strategic need here was to manage the timing of relationship exit (as these products still produced a reasonable cash flow), by reducing the product portfolio. In the case below, this also affected relationships with suppliers.

> We had this strong fortified corner to our business, which was diminishing - should we have it or not? The argument was that we shouldn't, but we have about 20 acres of it out here and we have got growers down the line too, so the decision to drop a line like that actually might take two or three years. (Study 1)

Relationships with other stakeholders depended very much on the situation facing the firm, with some firms, desiring to export, forming strong relationships with export bodies. Relationships with competitors also remained mixed in intensity, and were focused on efforts to increase the overall 'pie' through joint promotion, and increasing the quality of products through information and resource sharing.

> We find that the best way for us to expand the New Zealand market share is tend to go in as a group and that way we make a bigger impact. We'll go to trade fairs; we'll do tastings to the media, to the wine writers. We'll do tastings at stores; do New Zealand promotions to retail outlets and consumers. That's really the best strategy that we can actually use involve cooperation across the New Zealand wine industry going into the market. (Study 2)

Insert Table 2 in here

Here, while the market was small, the owners could see the potential and the benefit from working cooperatively together to increase the size of the market, although this was moderated by the competitive and geographic situation. As noted in Table 3, the motivation to form relationships, for the most part was opportunistic, and based around solving particular problems. Relationships were often formed with other stakeholders out of legal necessity, and

with suppliers (grape growers) based on derived demand. Relationships with end-users were formed as a means of attracting new customers.

> My father never underestimated the customer. When New Zealand wine was still hard to sell, if he got a customer, he sought to keep him. And he never believed that wine was only for special occasions, so it had to be affordable. (Study 1)

Insert Table 3 in here

Order Taking

The success of quality improvements, as well as changes in consumer lifestyles and eating and drinking habits (the switch away from beer to wine, eating out in greater numbers and the advent of bring your own restaurants; Beverland, 2003) in the late 1980s, combined with the advent of wine sales in supermarkets in 1991 (and the exponential increase in channels) led to exponential increases in the demand for wine. Figure 1 identifies this period as one of 'order taking'. Here the environmental component of the gestalt consisted of rapidly increasing carrying capacity, and relatively low niche density. Essentially customer / consumer demand vastly outstripped supply. Firms were structured as simple production systems, focusing on producing quality wine, gaining external endorsements and making the general public aware of these improvements through public relations activities. Most firms were small, although were growing in response to demand, and even the large incumbent firms had by this time restructured away from fortified and low quality wine, and were highly experimental. Wines that gained endorsements sold out overnight.

> In the early days the press (wine writers) were important because people in the wine market like guidance and the endorsement of a well-known wine writer. We have a relationship with our consumer and we owe it to them to have some outside measurement to show that our wines are great. (Study 5)

This changed environment also affected the form and intensity of relationships. Table 3 identifies that firms during this period had little direct motivation for forming relationships with customers, and even wine of poor quality, usually made by long established wineries, sold.

> There were a lot of mid-range companies that think that there've been around for a long time that haven't done anything new, they've just been cruising. We had years here – 1992-1994 and early 1995 where we could sell every bottle of wine that we produced even if it was crap. (Study 2)

Relationships with suppliers remained demand driven, although typically firms took whatever grapes were available, due to the lack of classical grape varieties at the time.

> We were always buying in on the open market and we didn't have any long term supply arrangements. (Study 5)

Firms continued to invest in relationships with competitors as a means of raising awareness, particularly overseas (which led them to increase the intensity of their relationships in some cases and form new ones in others - hence the term 'mixed' in Table 2). Relationships with end-users focused more on attracting new consumers, although these relationships were often distant and certainly not close, as producers could often easily find other customers to sell their wine to. For example, the winery below operated a 'first come first served' mailing list, whereby each year's release resembled "a feeding frenzy as customers faxed their orders in as quickly as possible in the hope of securing more wine" (Study 2). In this scenario, even long time customers often missed out on gaining the desired products, and producers priced and sold their products with little regard for marketing.

> I don't really do any marketing. Next year, I'll charge NZ$100 for my Pinot Noir in export markets, and I'll get it. I aim to make New Zealand's most expensive Gewürztraminer. I get more for this wine than many do for their Chardonnay. People don't complain. In most cases, they ring me up and ask me to send them anything I have. If they aren't happy, there are plenty of people wanting to get onto the mailing list that will buy. (Study 3)

In this gestalt, firms generally reduced the intensity of relationships across the board, as the market was so munificent, that even average quality products sold. The form of the relationship also remained characterised by distance and transactions. Firms dealt with direct customers in a short-term manner, often selling wine when they had it, or when distributors and retailers desired a new listing, or wanted to secure some award winning wine. Essentially, distributors, agents and retailers wanted to sew up some agencies for the emerging NZ wines ("I think our distributors couldn't get a Marlborough agency and took us on, so it may have been the wrong wine" Study 5). Relationships with suppliers and other stakeholders continued in an ad hoc fashion, with little consideration of the overall strategic importance of the relationships, and relationships with end-users were few and far between, with firms exiting out of unprofitable relationships, and even long standing customers forced to deal with rationed and restricted availability, due to firms switching to high value overseas customers. Here, relationships were often formed with the highest bidder. Only relationships with competitors were characterised by a high degree of cooperation, partly due to the munificence in the market and partly due to past success - successful strategies were continued, and invested in further.

4P's and Relationships

A situation of order taking, in which returns are relatively easy to come by, eventually attracts more and more new entrants, many of which are well funded, and much larger than their incumbents. The success of the incumbent wineries in essentially creating a viable niche caused the number of new entrants to increase rapidly. Many were small players, with a strong desire to produce high quality products and pursuing a romantic dream. Access to

capital was easy to come by, and most small wineries entered the industry with little idea of the challenges.

> I think currently and in the last five years the wine industry has been the easiest industry I've ever been associated with in terms of raising capital because there's a romantic feel good factor that's intangible when its bloody strong. You can talk to accountants and lawyers who make very rational decisions and if you mention the wine industry to them they go nuts. (Study 2)

This period also saw consumers become more knowledgeable about wine, and more demanding, opening up new niches for wineries to exploit. The advent of wine in supermarkets was now having its strongest effect, as this channel quickly grabbed 36 per cent of total wines sales in a period of five years. This had an impact on the marketing of wine, and combined with slowing growth rates domestically, and increased competition from Australian imports, forced wine marketers to differentiate their products and do more to make consumers aware of their offer, often due to rapidly changing end user demands.

> In a supermarket it's a different environment, with different consumers. It took about three years of wine being in supermarkets before there was a real interest in buying varietal wine rather than generically labeled wine. They wanted to see the varietal on the label. No longer was 'Dry White' or 'Dry Red' an acceptable way of marketing wine. Consumers wanted to know if it was a Cabernet, or Cabernet/Merlot. Then people started to get very interested in regions. Consumers were talking about wine, and they were comparing wines from different regions. They liked the differences between a Gisborne Chardonnay and a Marlborough one. Right now, within supermarkets consumers are interested in vintages. (Study 2)

The changes to the wider environment (increasing density and decreasing carrying capacity) saw a change in the overall marketing gestalt from one of order taking, to one characterised by the use of the 4P's of price, promotion, placement and product, whereby the aim was to differentiate oneself in the marketplace, and increase market share and sales. For many smaller wineries, fit was difficult, and they either folded, or refocused on emerging overseas markets such as the U.S.A. In this gestalt, firms were motivated to change their actions for a

number of reasons. The power of large liquor buyers forced many wineries to form closer relationships, involving increased investment in consumer advertising.

> First and foremost, I want to know what their marketing plan is. Secondly, I want to know why they have picked a particular price point. I have my reasons for putting things in at certain price points so I want to know if they have really researched the market. I want to know what their above the line spend on marketing will be so that I know they are doing something to make our consumers aware of the product. Are they in touch with wine writers? Have they got anything going in periodical magazines? Are they putting it in wine shows? We'll do nothing. It's not a retailer's job to talk about an individual's product. That is something they have got to do. (Study 2)

Here, firms were also encouraged by their retailers to build a relationship (albeit indirect) with the consumer to attract them into the stores and to the winery's brands. In other cases, firms realised the lack of relationships (a practice carried over from the previous munificent environment) was having adverse effects in a more competitive one.

> We always said that our distributors would do the marketing. We would signal to them how much we intended to make and get their agreement on that, but that just put pressure on prices rather than achieving the sales at the price we wanted. Therefore our planning since 1994 has been more market driven. (Study 5)

Relationships were also formed with in-direct customers for tactical reasons. For example, the quote below, from a sales manager identifies how forming relationships at a head office level was not enough for the effective implementation of their firm's strategy. Discussions with retailers at the time revealed that firms were encouraged to form relationships with head office buyers, but themselves gave little consideration to the needs of store managers.

> Before if we were dealing with stores the owner's decision would count for everything. But now we must deal at a much higher level because the people running these chains of stores set everything in motion, and we have to make sure that we've got a good relationship with the group buyer, or else nothing happens. But we've still got to go further down the line and strike up a relationship with the people that operate the stores. Otherwise, what you arrange at the top level doesn't flow through, and nothing much happens. (Study 3)

In this gestalt, the form and intensity of relationships changed radically as in most cases, relationships had to be formed from scratch. This gestalt also demanded a range of skills form wineries that many had previously not developed, necessitating strategic reviews at the majority of firms interviewed.

> Wine is not different to any other branded product. There are the core or repeat purchase products and a demand for unique or fashion products. The market is now consumer marketing in the classic sense and has become more consumer-oriented. A large percentage of the population want something different, while others are focused on traditional products, and there continues to be huge demand for quality and excellence. The range of skills required is immense. There is demand for the producers to provide extra [promotional] services. (Study 3)

During this time, a number of wineries failed due to their inability to meet the new needs of their direct and indirect customers. The quote below highlights the change in market munificence from the scenario of order taking, when even average quality wines managed to sell.

> The danger is for a lot of what retailers call 'no name wineries'. These are wineries making solid, but forgettable wine - nothing distinctive about it. Retailers tell me every week they get one or two people come in and say, 'please will you put my wine on the shelf', and they have never heard of the producer, have no significant acclaim to point to, the wine quality is plain, and the price is not good value. (Study 5)

Relationships with competitors also continued, although a number of commentators and industry experts noted that many wineries were refusing to share market intelligence, and were becoming reluctant to invest in joint marketing activities that did not directly increase their own sales. Relationships with suppliers also changed during this period, with a many firms realizing their strategic importance, and the need to secure quality grape supplies, many of which would be used in individually vineyard branded wines. This resulted in wineries forming more strategic, and deeper relationships with their supply chain, whilst also rationalizing some at the same time.

> We were always buying in but it wasn't until 1994 that we started saying well growers are actually important to us because of the quality of their fruit going into our wine and we need to really nurture them, develop relationships with them and gain more input into their vineyard management. (Study 5)

Despite the increase in the intensity of relationships with channel members and suppliers, relationships with consumers remained distant (although more effort was being put into developing mailing lists at this time, with a greater emphasis being placed on retention of customers through increased communications and special mailing list customer events). However, as niche density increased and carrying capacity continued to fall (wineries during this time did little to bring new consumers to wine, and it was regularly noted in press articles that wineries had focused on selling more wine to traditional wine consumers), wineries that failed to invest in profile raising activities with consumers tested the goodwill of their agents.

> I really believe in what [winery name] is trying to do. The owner has a great history so you know he will produce high quality wine if the season is good. However, he gives us so little support. His wines are expensive and come from an unproven area that has a marginal climate. While the first vintage was great, subsequent vintages have been variable, and the quality does not justify the price. I'd like to put more effort into the brand, but he gives me a small allocation and refuses to visit the key markets at all. The norm is twice a year, yet he does nothing. It's just easier to work with other brands that help me sell the product. (Study 3)

During this era, wineries increasingly focused on securing shelf space, and forming relationships with distributors, many of who were at capacity, and were uninterested in wineries with even very good products, but little by way of marketing activity. For example, one key liquor buyer noted that within a two year period, the benefits coming from reliance on external endorsements had fallen, and retailers now needed greater commitment on behalf of wineries to more regular and guaranteed marketing activity.

Due to the lack of development of new niches, the 4P's gestalt evolved into one more characteristic of relationship marketing, whereby the focus moved from gaining listings and

securing shelf space and sales, to retaining customers, shelf space and consumer interest. Here firms of all sizes needed to increase the intensity of their relationships, the scope of their relationships and take a more strategic long-term view of relationships. In cases where relationships with customers were already strong, wineries often reduced their relationship forming activity and focused on providing greater certainty to their current ones. The winery below was now more cogniscent of managing multiple relationships, and ensuring that customers needs were met, before opening up new niches.

> Our problem is that we don't have enough stock. All our customers are dramatically under supplied and are screaming for more stock. It is difficult to open up new markets. We sell wine through agents but we don't have enough stock to keep those guys happy. If our long term customers all of a sudden see us opening up new markets, they'll say 'for 10 years I have been asking for more stock and you have been saying you haven't got it and now I see you selling it to another distributor'. Why would we upset a long-standing customer who has helped support us and build our business over 10 years for some new bloke? In a couple of years time when we have more stock we will go to our existing customers and say 'listen guys here is more stock for you but we do want to open up another market'. (Study 5)

This led many wineries to increase supply, in an effort to meet demand, but also ensure that supplies remained reasonable in poor seasons. This period was characterised by the deepening of relationships, as a means of complementing the 4P's. Here niche density was still rising, but carrying capacity was very low, with new entrants having to effectively unseat incumbents to gain shelf spacing, or undertake a radically different strategy (such as winery tourism). Firms took a more strategic view of relationships, often learning from the past successes (even when these initial relationships had been forced upon them by direct customers), evolving many previous tactical, emergent strategies, into more formal ones.

> We are implementing a whole bunch of systems and guidelines into our partnerships with overseas distributors to ensure that they do operate effectively and both sides have a clear understanding of the mutual objectives and the obligations that each party has to the other. (Study 4)

Relationship form evolved with customers, suppliers and end-users, with wineries forming deeper relationships, and taking a greater strategic view of relationships. This involved many wineries bringing together members of the demand chain, and increasing the intensity of the relationship, with some going as far to offer shares in their company to distributors, and others becoming more transparent in their pricing.

> I don't like referring to people as agents, I like to refer to them as my partners and to that extent I actively encourage agents to be shareholders, and two of them are. I consider each agent a partner because if you're just transferring the ownership from here to a warehouse in London or New York it doesn't do the partner much good and it ultimately it doesn't do me very much good. It's a short-term game because we get the money and they've got the wine, but if you're not getting that pull through in the market place, then it doesn't work. (Study 5)

> I think that you have to be completely transparent in your value chain. There's no point trying to keep the cost of production a secret. If you're going to have a relationship with one of those guys it has got to be profitable for both sides. Therefore, you need to be totally open about margins. (Study 5)

More successful firms often took a more strategic view of other stakeholders, directly marketing to them, but also investing more in industry initiatives (one winery owner developed an industry conference which gained widespread international coverage, even though it only indirectly benefited the winery) and industry bodies, volunteering for membership, and acting as judges in wine shows (as a means of keeping up with stylistic trends). During this time, relationships were formalized with growers, and wineries often took an active role in the grower's vineyard, as a means of ensuring quality. Relationships with competitors were more dynamic, with wineries ending some relationships with competitive firms, but investing further in others, often as means of further differentiation (through regional or environmental production branding) and defense from new regional threats, which naturally garnered more press interest.

There were some high profile wineries that failed to increase relationships with customers. Essentially these wineries often had strong brands and a large presence and felt they could take this for granted. In late 2000, two of these wineries had a number of their brands discounted heavily (below cost) by distributors as part of a loss leading strategy. This resulted in a number of changes at these firms, and has since seen these firms signal that they will work more cooperatively with retailers.

Wineries also placed much more emphasis on forming relationships with consumers, often through special tasting events, and by placing more emphasis on their mailing lists, as these were usually high margin, very loyal customers. For example, the winery mentioned in the order taking section that encouraged a 'feeding frenzy' eventually moderated his approach, by limiting the mailing list to 500 long time customers, and providing a minimum amount of wine to each. As production did not increase, new customers could only get on the mailing list when current list members failed to purchase during the year. However, as Tables 1-3 note many firms continued to look for new opportunities. For example, whilst firms often strengthened relationships with growers, they also purchased from new growers in order to provide one off products to mailing list members, or target new niches, or try out new product styles and ranges.

By the end of this period (2003), it was becoming increasingly clear that wineries needed to develop new niches as well as effectively exploit current niches (through relationships). Firms often used relationships to do so, but also formed new relationships. In the former case, firms that invested heavily in distribution relationships used these to develop new product lines, or price tiers, or target new (usually younger) consumer groups. Others leveraged off competitor relationships to enter new markets, many of which resembled the emergent

market gestalt. For example, South East Asian consumers were showing some interest in wine, but sales remained irregular. Initially one firm worked directly with distributors to increase sales, but low consumer awareness of wine led to decreased orders as the channel was filling up. This led this winery to draw on long held relationships with stakeholders (industry export bodies) and other wineries to undertake joint promotion at a consumer level, resulting in a steadier stream of orders. For many wineries, managing a number of gestalts (similar to managing separate product portfolios at different stages of their life cycle) was the order of the day.

Discussion

The findings make a number of important contributions. To our knowledge this is one of the first studies to longitudinally examine relationship evolution. The findings identify a relationship between market dynamism and the changing form and intensity of relationships that builds on current research (Achrol and Etzel, 2003; Joshi and Campbell, 2003), whilst providing boundary conditions to the appropriateness of RM activities. We build on the findings of Achrol and Etzel (2003) who found support for emphasising relationships in growing markets, and de-emphasising relationships in mature markets, giving preference to adaptation goals, by supporting their contention that relationships may have an indirect impact on firm performance. Firstly, in growing markets, firms did form relationships, but only across a narrow scope of activity, of mixed intensity, and only in reaction to short-term problem based needs. In mature markets, firms used a wider range of relationships, with varying intensities, but used these as a means to achieve adaptation and performance based goals. As such, in contrast to Achrol and Etzel (2003) we propose that integration and

adaptation goals are intererelated, with integration goals representing one means of achieving adaptation goals.

By examining a broad scope of relationship activity, we also identify that firms routinely form, build upon, and exit out of relationships in response to a changing environment, and changing strategic needs. This enriches the debate about the appropriateness of relationships, and moves it away from debates about whether to emphasise or de-emphasise relationships under certain conditions (Achrol and Etzel, 2003; Joshi and Campbell, 2003), towards one that focuses on which relationships to invest in further, or divest oneself of. Future research into the link between market dynamism and relationship use needs to adopt a wider network view of market relationships, as well as account for relationship intensity and scope.

How firms manage this evolution, is addressed indirectly in the findings. Firstly, the strategic form that firms adopted often reflected the complexity of their environments. Therefore, the lack of relationships in an emergent marketing situation, and the reduction of them in an order-taking scenario, was entirely appropriate for the time, although it could have long-term effects. For example, firms often gained significant advantages by forming and / or intensifying their relationships early, and assuming continued investment in relationships (complemented by constant market contact), these firms could enjoy increasing returns, and create tacit advantages that would be difficult for competitors to surmount. Therefore firms in mature markets noticing that many of their (better performing) competitors have relationships across a broad scope of activity may have already lost any timing advantages to be gained from relationship formation, and therefore must look for growth opportunities elsewhere (whilst forming relationships as part of a defensive strategy).

Care should be taken when using the proposed model. Firstly, whilst the findings are presented in an orderly fashion, the evolution from one gestalt to another does not necessarily occur in an orderly fashion. The movement from 4P's to relationships and 4P's was not one predicted by many wineries, nor their customers, and the later gestalt followed an emergent, incremental path, where no one event drove a change in strategic approach. The emergent nature of these changes, caught many firms by surprise, and also saw many firms having to encourage their customers to invest further in relationships. Firms that made these changes early (and gained timing advantages) were those that had constant contacts across a broad scope of market activity. These firms invested heavily in market visits, trade days, consumer events, cooperative activities, and volunteered for a number of industry leadership positions. These firms also switched resources into marketing and market sensing activity earlier than firms who were forced to react to these emergent changes (who often invested money into production or dividends). Part of this switch, also saw these firms invest more in their staff, encouraging them to undertake market visits, gain new skills, and interact more with customers, allowing the firm to expand its scope of market contacts, thereby improving its market sensing ability.

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Figure 1:
Marketing Gestalts

		Carrying Capacity	
		Low	High
Niche Density	Low	Emergent marketing	Order taking
	High	Relationships and 4P's	Transactions (4p's)

Table 1: Changes in Relationship Form

	Relationship Form					
Gestalt	**Direct customers**	**Indirect customers**	**End users**	**Suppliers**	**Competitors**	**Other stakeholders**
Emergent marketing	Transaction	Ad Hoc	Relational and transaction	Ad Hoc	Problem based Cooperative	Ad Hoc
Order taking	Transaction	Ad Hoc	None	Ad Hoc	Cooperative	Ad Hoc
Transactions 4P's	Relational	Ad Hoc	Transaction	Transaction	Cooperative and Competitive	Ad Hoc
Relationship and 4P's	Relational	Relational	Relational and Transaction	Relational and transaction	Cooperative and Competitive	Ad Hoc

Table 2: Changes to Relationship Intensity

	Relationship Intensity					
Gestalt	**Direct customers**	**Indirect customers**	**End users**	**Suppliers**	**Competitors**	**Other stakeholders**
Emergent marketing	Low	Low	Mixed	Low	Mixed	Mixed
Order taking	Low	Low	Low	Low	Mixed	Mixed
Transactions 4P's	Increasing	Increasing	Low	Increasing	Mixed	Mixed
Relationship and 4P's	High	High	Increasing	Mixed	Mixed	Mixed

Table 3: Changes in Motivation for Action

	Motivation					
Gestalt	**Direct customers**	**Indirect customers**	**End users**	**Suppliers**	**Competitors**	**Other stakeholders**
Emergent marketing	Opportunity	Opportunity	Attraction	Demand driven	Gain scale through cooperative activity	Necessity
Order taking	None	None	Awareness	Demand driven	Gain scale through cooperative activity	Necessity
Transactions 4P's	Forced	Tactical	Attraction	Demand driven and security	Gain scale through cooperative activity	Necessity
Relationship and 4P's	Strategic	Strategic	Retention and attraction	Security	Opportunity and defence	Necessity, opportunity and defence