



**6<sup>th</sup> AWBR International Conference**  
**9 – 10 June 2011**  
**Bordeaux Management School – BEM – France**

## **Which winery to represent: what influences the distributor's choice?**

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### ***Abstract***

◦**Purpose** - Researchers have investigated consumer choice influencers for wine but there is little empirical research of the influencers of decisions along the wine supply chain. Whilst consumer choice is important to understand, the products available for consumers to choose from depend on the choices made along the supply chain. This research seeks to begin the investigation through examining the influencers that affect a distributor's choice when considering taking on a new winery

◦**Design/methodology/approach** - Initial qualitative interviews of Distributors in Australia were used to establish and then pilot a decision (choice) set for use in a quantitative Best-Worse study. The results from the initial quantitative phase now offer an opportunity to extend the study into other geographic markets

◦**Findings** - A consistent hierarchy of influencers was identified in the sample, which was able to demonstrate a difference in decision-making influencers between low and high volume distributors, lower and higher margin distribution firms as well as between those with an On-Premise focus opposed to Off-Premise focussed. A clearly different approach to decision making is seen in the higher volume and off-premise distributors in this survey.

◦**Practical implications** - The findings may assist wineries better align their product offering with the supply chain through understanding the decision influencers of distributors and their consumer target markets and the influencers vary in the channels they seek to use to attain marketing goals.

Key words:

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Distribution, Supply Chain, Best-Worse, Decision, Choice

## 1. INTRODUCTION

As the discipline of wine marketing has developed, much attention has been given to understanding consumer preference for wine and the influencers of choice for various situations such as on and off-premise, gift-giving and special occasions. A simple search of the Academy of Wine Business site's previous papers shows a plethora of papers that have contributed to understanding the end market for wine; work that has assisted producers and marketers better match the consumer market. There is though an absence of empirical research concerning behaviour and decision making along the wine supply chain. If we are to use knowledge and information to create value we need to recognise that whilst no value is created until the end consumer makes a purchase (Svensson 2003), the choice of wine products available for the consumer to choose from is the end result of a number of decisions made along the wine supply chain. The winery's choice of grape, style and region to the distributor's decision about which wine to carry and promote and the retailer's (on and off-premise) decision on the wine to buy in, stock, promote and even to champion all need to be made before the consumer's choice comes into play. To be truly market oriented there needs to be strategic decision making along the chain (Hollebeck & Brodie 2009) that takes into account wider references than simply examining the consumer. There is a need to think of a 'Demand Chain' where an overlapping of information and understanding occurs to create value for all consumers, customers and suppliers (Cambra-Fierro & Polo-Rodondo 2008).

Given the dearth of empirical evidence and understanding, this paper seeks to begin a stream of identification, understanding and information sharing of, through and about the wine supply chain. This is needed to enable researchers to empirically explore the supply chain and practitioners and supply chain members to 'align' in their decision-making (Grunert et al 2010). Supply chain members need to align their goals with partners up and downstream (Lundin & Norrman 2010). Whilst incentives and measures must be aligned (Lundin & Norrman 2010) the lack of knowledge and understanding of the influencers on decisions, (what business customers really want) is a major impediment to supply chain alignment. Agency Theory tells us that missing information, lack of knowledge and actual understanding leads to breakdown and misalignment of attempted coordinated activity (Lundin & Norrman 2010), leading Agrell et al (2002) to suggest that maybe a different business logic is needed to ensure alignment of the supply chain can be enabled. Relationship marketing suggests that understanding the factors that influence outcomes and behaviour is a key factor in successful business: supplier relationships (Cambra-Fierro & Polo-Rodondo 2008). This paper begins the process of investigation and identification of what influences a distributor when they make a decision on taking on a new winery.

## 2. CHOICE OF WINE

Choosing wine carries a perceived risk (Hollebeck & Brodie 2009), for consumers and business customers alike. A distributor can only represent so many wineries. Customers are looking to be able to 'trust' in the purchase they make; the work of many researchers has been to identify 'what' consumers trust about wine. Large brands represent a level of risk minimisation, they require less knowledge to be able to make a buying decision (Atkin & Johnson 2010; Hollebeck & Brodie 2009; Lockshin 2000). The wider a brand is known, the more a consumer is exposed to a brand then the more likely they are to have positive attitudes about the brand (Sinapuelas & Sisodiya 2010). We expect then, that business customers will also value 'brands' as an influence in their decision.

Research has also shown that origin/region can be a substitute for brand in terms of a quality indicator (Atkin & Johnson 2010; Johnson & Bruwer 2007; Thode & Maskulka 1998; Veale & Quester 2009). In some cases we have seen the region becoming the brand (Papadopoulos & Heslop 2002) especially with higher spending, discerning wine consumers (Johnson & Bruwer 2007). Different regions command different price premiums (or discounts); some are more of a brand than others (Newman-Stein-Friedman 2004). There is trust with both regions and the brands (Bruwer & Wood 2005) often because the consumer is forced to rely on a multitude of extrinsic factors (Jacoby & Olson 1985). Region has been shown to have the highest utility amongst higher knowledge consumers (Rasmussen & Lockshin 1999; Jarvis & Rungie 2002; Tustin & Lockshin 2001). We might expect to see a difference in the influence region has on distributors with varying sales volumes; lower sales distributors (at likely higher priced point wines, higher quality lower volume) might be more influenced by region than brand and vice versa.

B2b customers are reliant on fewer customers than b2c businesses, so the portfolio presented to the market is very important (Cambra-Fierro & Polo-Redondo 2008), a factor that may translate into which winery to represent; range can be everything (Dewald 2008). Tipples (2010) reports of the importance of a retailer valuing receipt of one invoice for a number of wineries, the cost and ease of dealing with one account for a number of wines is important in b2b. As Zsidisin & Ellram (2003) posit, the b2b company needs to acquire what best helps them achieve their objective, sourcing the supplies that best meet their and their customers needs (Cambra-Fierro & Polo-Redondo 2008) is a central tenet to relationship marketing and successful B2B operations. As consumers are more likely to repurchase from the same price point (Lockshin 2005) the price point targeted (or possible to target) of the winery is likely to be an influence on a distributor's decision.

Research showed that previous taste was a significant influencer of consumer choice (Goodman et al 2008, 2008a; Goodman 2009), so a wine supply chain of industry professionals is likely to be influenced by taste. Expectations, likely to be generated by anticipation of future business, the brand, region or even winemaker/owner character (Spence & Essoussi 2008) can override the taster's sensory perception (Veale & Quester 2009). Whilst knowledge of wine is important, in the business channel knowing how to sell it is critical and more likely to influence sales (Dewald 2008). Sommeliers, those responsible for wine sales in the On-premise setting, are influenced by value (for money), variety, taste and reputation (Dewald 2008); do those distributors focussing at the On-premise market have factors such as these as more of an influence than those with an Off-premise focus. Some retailer's value merchandising support, whilst others simply seek payment to cover the retailer's cost of conducting in-store tastings (Tipples 2010). In terms of sustainability, having a supply chain working together with the understanding of what its customers (and its customer's customers) want is crucial for the creation of value for all those involved in the supply (value) chain from the winery to the consumer.

### **3. METHOD**

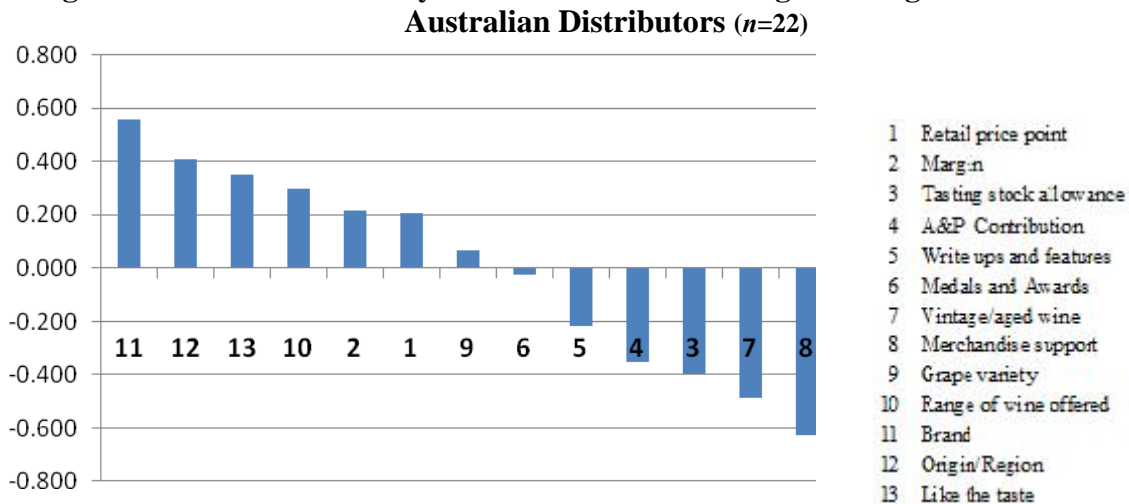
In depth interviews were held involving open ended questions for discussion as well as quantitative questions using Likert scale responses. These were conducted in-person and via telephone, with members of the wine supply chain (retail, wholesale and distribution) to discuss the factors important to them when making decisions as to which wine to buy in or represent. From these interviews, a decision set was compiled for use in a quantitative study. The data was collected online using a Best: Worse design of 13 decision influencers

(Goodman et al 2008). An email was sent to 121 wine distributors in Australia inviting them to complete the survey. This represents the population of licensed distributors that distribute wines within Australia (excluding those companies that only represent brands they own). Useable responses were received from 22 distributors, a response rate of 18%. As this is a population sampling, 18% is a satisfactory sample size to investigate. Furthermore, the Best-Worse choice method enables data to be examined from smaller numbers of responses; in fact, estimations are available and accurate at the individual respondent level (Cohen 2009; Goodman et al 2005). Responses were received from the various States in Australia broadly in line with market share of wine sales per state. New South Wales and Victoria represented 60% of responses, South Australia and Western Australia a further 31%, suggesting a broadly representative national sample of decision-making. Just fewer than half the sample had sales less than 1000 cases per month (12 x 750ml bottles), half of respondents had sales between 1001-8000 cases and one had sales in excess of 12001 cases per month; as such, a representation of volume and value distribution was presented in the sample. The scores were standardised using the approach of Goodman et al (2008a) which will enable comparison across later data collections.

#### 4. RESULTS

Figure 1 shows the results across all respondents in decreasing influence on the decision. Those below the line are not negative, simply the lower the standardised score, the less influence it has on the decision to take on a new winery. At a full sample level, Brand was the most important influencer of choice, 25% more so than Origin/Region; in line with the findings of Atkin & Johnson (2010). Taste was important (4<sup>th</sup>) as was the range of wines offered by the winery (5<sup>th</sup>). Margin and Retail price point ranked similar influence whilst, interestingly, the actual grape variety scored relatively low; this may be offset though as the distributor is more looking at the range of grape varieties produced as wine by the principal.

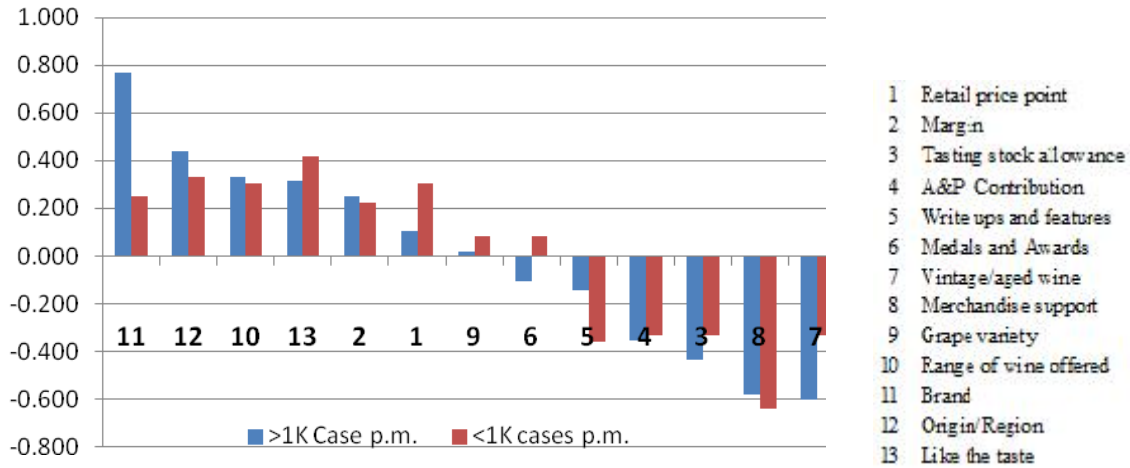
**Figure 1 – ‘what influencers your decision when looking at taking on a new winery?’**



Typically, wine is seen as either a ‘commodity’ wine, with sales driven by volume or as ‘fine wine’ where volumes are typically lower. How does the sales volume of a distributor affect their choice of winery to represent? Figure 2 gives a comparison between High and Low volume distributors (HVD & LVD). Based on discussions in the interview phases as well as the response split in the best:worse survey a mark of 1000 cases per month was used to split the sample between high and low volume. HVD are substantially more influenced by brand than LVD; whilst this is to be expected it is now present in empirical results. LVD have their opinion of the taste as the biggest influence on the decision and are substantially more

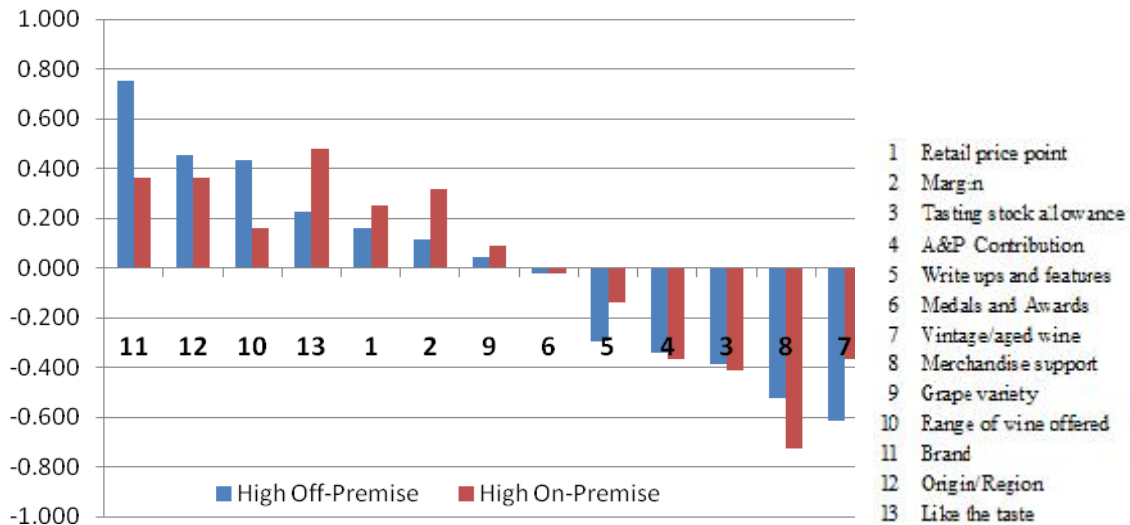
influenced by that, and the retail price point than HVD are. This infers a very different approach and business logic between distributors of different sales levels. A winery approaching a distributor that takes them into a portfolio based on feedback of ‘taste’ and ‘retail price point’ may need to see if it is with the mindset and position of expected smaller volume sales. It could be that feedback like this from a distributor to a winery principal is tied to the sales levels of the distributor concerned.

**Figure 2 –Differences between Low (n=12) and High (n=12) Volume Wine Distributors**



Whilst On and Off premise are arguably both the ‘retail’ wine channel, they represent different situations and are seen to show different behavioural responses (discussed in Cohen 2009; Goodman 2008, 2009) the question arises: do distributors with a business orientation and sales to on or off-premise differ in their decision influencers concerning the winery they represent? Figure 3 shows that there are several notable differences. Brand and the range of wine offered are much more of an influence for those with an Off-premise focus whilst those with a focus toward On-premise are much more influenced by taste and margin. Those On-premise respondents interviewed in the qualitative phase reported the importance of margin (Goodman 2011) often mentioning the importance of it in the overall profit of the restaurant. Whilst quantitative data needs to be gathered from trade customers, there appears to be an alignment between the later stage customers of the supply chain; the question is whether the wineries seeking to tap into this market offer products that suit the downstream chain members.

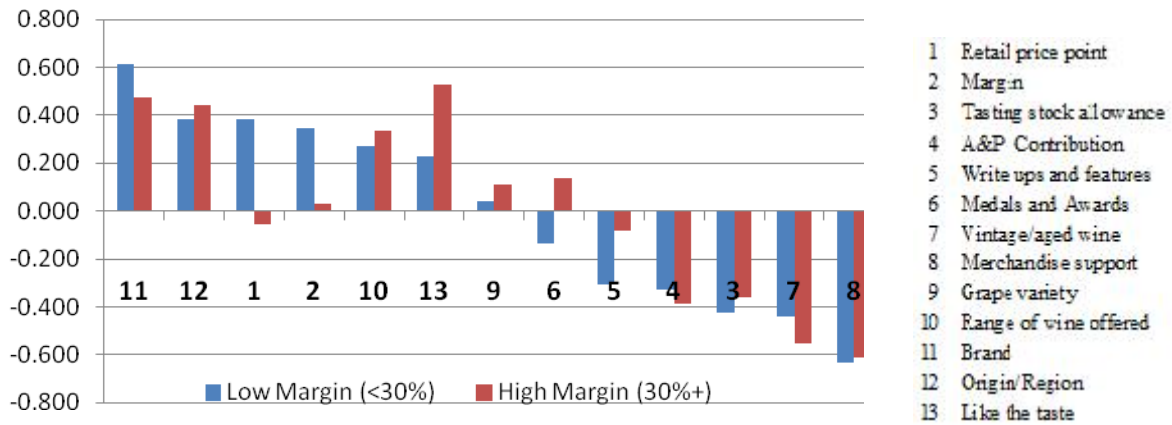
**Figure 3 –Differences between On (n=11) and Off-Premise (n=11) Focussed Distributors**



The importance of attitude to Brand and Taste is evident when segmenting the responses using the average trade margin received by distributors. Responses to questions in the

interview phase showed that around 30% (in Australia) was the ‘typical’ commission margin of a wine distributor, this was used to split the sample. When considering which new winery to represent, Lower Margin Distributors (LMD) are much more influenced by Brand and less so by Taste than Higher Margin Distributors (HMD). Margin itself and Retail Price point is significantly more of an influence to LMD whilst HMD, similar to those with an On-premise focus are more influenced by Grape Variety, and interestingly by Medals and Awards. Whilst medals and awards have not shown to be much of an influence in consumer research (Goodman 2009), clearly HMD see some value in them.

**Figure 4 –Differences between High (n=9) and Low (n=13) Margin Wine Distributors**



## 5. CONCLUSION

Whilst the limitations of this paper may be seen in the low number of respondents, in a b2b setting numbers of respondents are typically lower than in consumer research simply because there are less in the population. This research represents 18% of the population of the licensed distributors in Australia that sell non-proprietary brands; as such, it can be seen to be a sample worthy of examination. As a starting point to using Consumer Choice Modelling to understand decision making within the wine supply chain, this paper has presented data that show differences in decision making by distributors when segmenting by margin, market focus and sales volume. Wineries and wine researchers have seen that consumers have different choice influencers in different situations (Goodman 2008, 2009) and the same choice method shows differences in decisions in the supply chain. If wineries are looking to target On-premise as an outlet for their wine it may well be worth considering different distribution or product offering to that which is presented to the Off-premise channel; different influencers are present amongst the distributors so different approaches may be needed. Further research is needed to extend this study to the On and Off-premise decision makers. Results like this contribute to the understanding and identification of information necessary to reduce problems identified in Agency Theory that are likely to misalign supply chains. When a winery is seeking distributor representation the data presented here suggests it may be worthwhile to understand the margin of the distributor. The ‘demographic’ of margin size is likely to result in a different emphasis of decision factors; the product offering may need to be adjusted to suit as necessary. It is proposed that to assist sustainability in the wine industry (even survival) that understanding is needed of the decision influencers at all exchange points in the industry. This will assist in enabling alignment of the supply chains and creation of value for all parties.

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