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Sustaining the Quality Positioning of New Zealand Wine: A Marketing Finance Perspective

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Abstract

Purpose*: To develop an integrated framework that links the brand value created by marketing to financial returns and to use this framework to examine the sustainability of the quality positioning of brand New Zealand wine.*

Approach and Findings*: We contrast the traditional marketing perspective of branding with an accountancy-finance perspective of branding and develop an integrated framework to examine the sustainability the branding of New Zealand wine.*

Practical implications*: The conceptual framework is used to draw implications for the marketing of New Zealand wine. While the "green" production policy is essential to the advertising positioning of the brand, the development and maintenance of a sustainable branding strategy involves broader marketing and financial considerations.*

Key words: umbrella branding, country of origin branding, financial perspective of branding, wine branding, sustainability

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1. INTRODUCTION

The New Zealand Wine industry is recognised as a leader in sustainable production and this is an integral part of its country of origin branding and quality positioning. The industry has a bold "green" production policy of 100% grower participation in an accredited sustainability scheme to be achieved by 2012. The programme now covers 93% of the producing vineyard area and 85% of New Zealand wine production. Thus, this target is likely to be achieved.

While the "green" production concept plays an important part in the country of origin branding strategy, it is the broader marketing and financial considerations that ensure the strategy of quality positioning is sustainable in the longer term. In a time where there is an oversupply of wine, there is pressure to reduce marketing expenses and to discount prices to enhance cash flows. Thus, this investment in an umbrella branding strategy is in danger of being compromised. While the industry may achieve sustainable production, the industry's positioning may no longer be sustainable from a branding perspective because of the lack of compliance to the quality requirements. In the last couple of years bulk exports of New Zealand wine have increased dramatically and there are issues as to whether the bulk wine is meeting with quality standards.

The purpose of this paper is to examine the sustainability of the quality positioning of the New Zealand wine brand. To achieve this an integrated framework is developed that links the brand value created by marketing to financial returns. framework. The next section of the paper considers the marketing versus finance perspective of branding, while the following section develops a framework that integrates marketing with the financial returns. The final section uses the framework to examine the financial sustainability of the quality positioning of New Zealand wine.

2. MARKETING VERSUS FINANCE PERSPECTIVE OF BRANDING

2.1 The Marketing/Consumer Behaviour Perspective

Much of the initial research on the influence of brands on marketing success has been in response to the communications industry's need to understand advertising effectiveness. This research stream views the brand as an entity and is consistent with the AMA's (2004) definition of the brand (i.e. a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers). Keller (1993) formalised this perspective by developing a model the outlined the determinants of customer-based brand equity. He defined customer-based brand equity as: "the differential effect of brand knowledge on consumer response to the marketing of the brand".

This Keller conceptual framework was based on consumer behaviour concepts including consumer preference, loyalty, awareness, perceived quality and brand knowledge. However there have been limited attempts, to connect these consumer attitudinal measures to financial returns. An exception is the research by Keller and Lehmann (2006) who develop a model of a brand value chain. While the model had links to brand value it failed to take into account the broader interactive role that branding plays in the marketing system. These brand interactions are not only between the marketing organisation and end-consumers, but also with other stakeholders in the marketing system (Duncan and Moriarty 1998). Thus we suggest that the more appropriate model is a brand value network (Merz, He and Vargo 2009).

2.2 The Accounting Finance Perspective

The accounting finance perspective views the brand as a trademark and the focus thus is on financial statements, license fees and historical costs. It also focuses directly on short-term incremental sales and cash flows, which can be attributed to the brand (Srivastava, Shervani and Fahey 1998). For example, brands not only increase cash flow but also can reduce the volatility and vulnerability of cash flows to the organisation (Srivastava, et al. 1998). Econometric modelling methods can also identify the influence of the brand on sales and market share relative to the other influences of price, distribution and other marketing activities. In addition, research by Madden, Fehle and Fournier (2006) shows that brand-focused companies create greater returns for shareholders compared with stock market averages. Their findings also highlight a broader role for brands in reducing corporate risk which goes beyond the traditional product management perspective.

With the accounting finance perspective the value of the brand is associated with the organisation rather than the customer. Thus brand value is seen as an intangible market-based asset (Srivastava et al. 1998) or as an operant resource (Merz et al. 2009). This perspective has resulted in a variety of methods that have been developed to measure the financial contribution of brands to an organisation. One approach is to take the organisation's share market price and subtract the tangible asset value of the organisation leaving the intangible component. This intangible component, includes brand value, patents, copyrights, contracts, intellectual capital etc.

Another more direct approach is to identify the factors associated with the brand that create the organisation's value using an index of brand strength based on performance dimensions. For example, Interbrand developed an index using measures of leadership, stability of the brand, geographic spread trend, support, protection, and market stability. This index can then be used to project future intangible value and to estimate the brand's financial worth. These financial methods can calculate the brand's value as a proportion of market capitalisation. For some brand-driven companies this proportion can be in the order of 30-50%.

3. AN INTEGRATIVE PERSPECTIVE OF BRANDING

3.1 Process perspective

Recent research in marketing has focused on the relational and experiential roles that brands play and how these create value. This approach provides the marketing alignment with the accounting and finance perspective because the brand is seen as a business process that creates value for the business. For many products, it is the customers' relationships and experience with the branding organisation and other stakeholders that are important determinants of brand meaning and hence the brand's financial value.

The implications from this process-based perspective are that interactive communications between buyers and sellers and other stakeholders play a key role in building brand equity. Here, the brand is a market-based asset (assets that arise with the comingling of the firm with external environment). With the development of the electronic commerce environment, Interactive Communication Technology (ICT) plays a major role in facilitating interactivity and in these situations, the brand becomes a surrogate for trust based on the service provision. Central to ICT is the concept of negotiated relationships between the customer, buyers and sellers (Schultz and Malthouse 2010) which recognises that in the contemporary environment the seller no longer has a dominant influence and customers play an increasingly active role. That too, has an impact on increasing brand value.

The process-based view of the brand leads to a network perspective of brand relationships. This perspective recognises that the value of the brand comes not only from the end-customer, but also from a range of relationships among stakeholders within the marketing system. Thus brand value is intrinsically linked with a network of associations with other brands. Some of these associations are based on alliance activities between brands (and the brands' organisations), while other associations are based on less formal arrangements. Examples of such formal arrangements include joint promotions, co-branding, alliances, and joint ventures. In addition, sponsorship plays an increasingly important role in co-branding. Using more than one brand symbolically builds consumer trust and commitment in these networks of relationships. The corporate reputation and identity of the focal marketing organisation is important too. This brand strategy is referred to as umbrella branding where the overall brand augments the value of the individual brand offerings.

Recently research about brand communities is receiving increased attention. A brand community consists of consumers and other stakeholders and the organisation marketing the brand (Muniz and O'Guinn (2001). Within this network, brand value is co-created by community-based negotiations and symbolic interpretations of brand related information. Thus, the organisation marketing the brand no longer has such a direct influence over the processes of value creation but becomes a partner in the co-creation of that brand value. Merz, He and Vargo (2009) review the research that has been undertaken within the emerging brand logic that involves brand co-creation with a focus on firms building brand relationships with all stakeholders. "Stakeholder" brand equity (Jones 2005) can be considered as a special case of network brand equity. This research has recognises the importance of secondary sources of brand knowledge in brand management (Keller 2003).

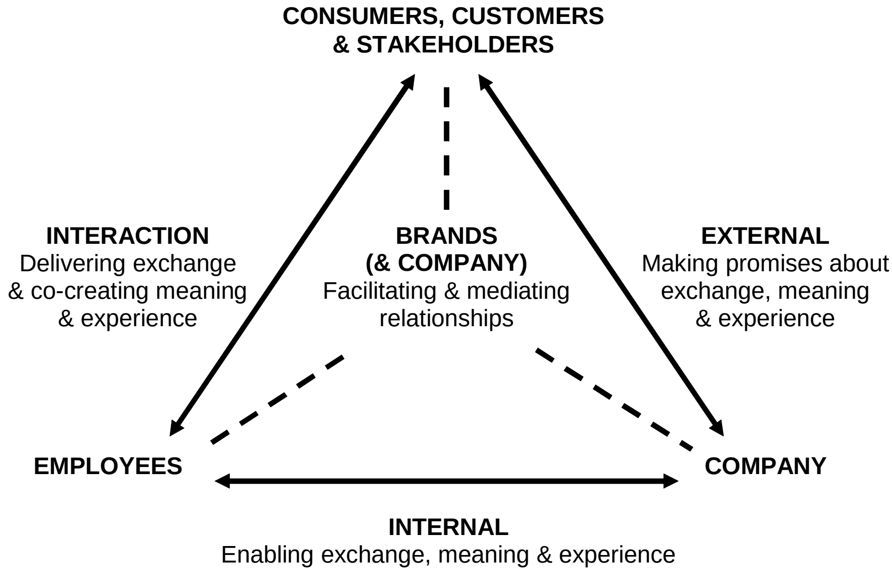
3.2 Towards a Integrated Marketing Financial Perspective

Brodie, Glynn and Little (2006) develop a theoretical framework that integrates the communications marketing perspectives with the process and network perspectives of branding. As with the financial approach, this framework views the brand as a market-based asset. Attention is given to the integrating or relational role of the brand in the value-adding processes that create customer experience, dialogue and learning. In this broader theoretical framework, the brand is conceptualised as a set of promises.

The framework, which is outlined in Figure 1, portrays the brand as facilitating and mediating relationships between the organisation and its customers and other stakeholders. The three types of marketing that influence these relationships are:

- External marketing (communication by the organisation and its customers and stakeholders *making promises* about the offer).
- Interactive marketing (interactions between people working within the organisation/network and end customers that create the experience associated with *delivering promises* about the offer).
- Internal marketing (the resources and processes *enabling and facilitating promises* about the offer involving the organisation and people working in the organisation).

Figure 1: Brand Promises Value Model



This brand promises value triangle can be extended to a network (Fryberg and Jüriado 2009). Within this expanded framework the brand is seen to have meaning not only for end-customers but also for the brand-owning organisation and a broader network of stakeholders. The implications for conventional brand management in this wider, more community-orientated conception of brands and socially-constructed notions of brand meaning are far-reaching.

4. APPLICATION OF THE FRAMEWORK FOR BRAND NEW ZEALAND WINE

The integrated marketing financial perspective leads to the view that the purpose of the country of origin branding of New Zealand is to co-create value between the producers of New Zealand wine, its customers and the network of stakeholders in its domestic and export markets. Thus the challenge is to generate understanding on how these industry branding activities lead to better financial returns for the industry. While the "green" production policy is essential to the advertising positioning, the development and maintenance of a sustainability branding strategy involves broader marketing and financial considerations.

Identifying the sources of the differential effect for wine branding is complex because of the multitude of relationships that exist between the organisation, its customers and network of stakeholders. A combination of factors drive the value of wine from the quality of the grapes to the integrity of the vineyard following sustainable practices to the acceptance and rating of the various experts to the actual taste and use of the wine at the table. All those factors are negotiated because they are subjective and influenced by a whole host of people and external factors, not just the wine itself.

In its umbrella branding role, New Zealand Wine comprises a number of elements. At its core is a discourse of quality and sustainability which is promoted by industry participants, local wine media and the industry's representative organisations. This discourse is implemented by continued attention to quality and sustainability from winemakers, effective programmes of collective marketing and careful cultivation of key stakeholders including supermarket buyers and international wine media. The brand is supported by effective information exchange in production, commitments from winemakers, and a powerful discourse of a shared fate and future. More directly, it is supported by brand collateral ranging from the effective collation and dissemination of industry information through the industry website, a series of over fifty trade shows and tastings around the world annually and the new logo of "pure discovery" which is underpinned with the theme of the previous logo of "the riches of a clean green land". This collateral is developed and administered by the New Zealand Winegrowers.

The emerging diversity of interests within the New Zealand industry make it essential to understand the different sources of value creation for the different players – particularly those around size, marketing strategy and positioning in various segments of the market. These sources of value lead to a complex brand positioning where the brand New Zealand Wine is part of a network of other brands. This brand positioning acts as an umbrella brand for a broad and diverse range of enterprises where the meanings and experiences of the brand New Zealand Wine are co-created. These experiences emerge from a network of relationships and interactions with employees, channels, retailers, other stakeholders as well as consumers. This network highlights both the interdependencies among those involved and the potentially different investments in, and requirements of, a national, umbrella brand by different players. Thus while the umbrella brand strategy is articulated as being targeted at key export markets, its influence is far broader and more complex. Research that focuses on how the value is co-created between these entities is needed to understand this complexity.

The appendix provides an initial attempt by Brodie, Benson Rea and Lewis (2008) to identify the role that the brand New Zealand Wine plays in co-creating value and hence financial return within the network of negotiated relationships. The framework distinguishes between "places" linked to the brand (destination countries, distribution channels and retailers), "things" linked to the brand (events, causes, third party endorsements), "people" linked to the brand (employees, endorsers) and other brands. Of particular relevance are the implications of connections among and with "other brands". At the industry level there are those stakeholders involved in the strategic and operational decisions – especially the funding and participation as well as governance processes around co-operation. At the firm level, managers will be deciding among their branding options: participation in industry initiatives, developing their own brand portfolios, and working with smaller groups of others (including grape growers) in co-branding alliances (involving multiple brand levels) as well as working within the influence of new and changing ownership structures.

The framework in the appendix recognises that in the contemporary environment the seller does not have the dominant influence in the market place. Within this network, the customers and other stakeholders play an increasingly active role enabling, making and delivering the "promises" associated with the quality positioning of brand New Zealand wine. To ensure this quality positioning is sustainable involves understanding the marketing and financial consequences of this complex network of interactions. This positioning is much more than making promises about "the riches of a clean green land". It involves making marketing investments not only in the making of promises, but also in the enabling and delivering of promises that lead to the co-created meanings and experiences about the quality positioning of brand New Zealand wine. Thus further research is need to understand the governance mechanisms within the value networks (Brodie et al. 2006, Merz et al. 2009).

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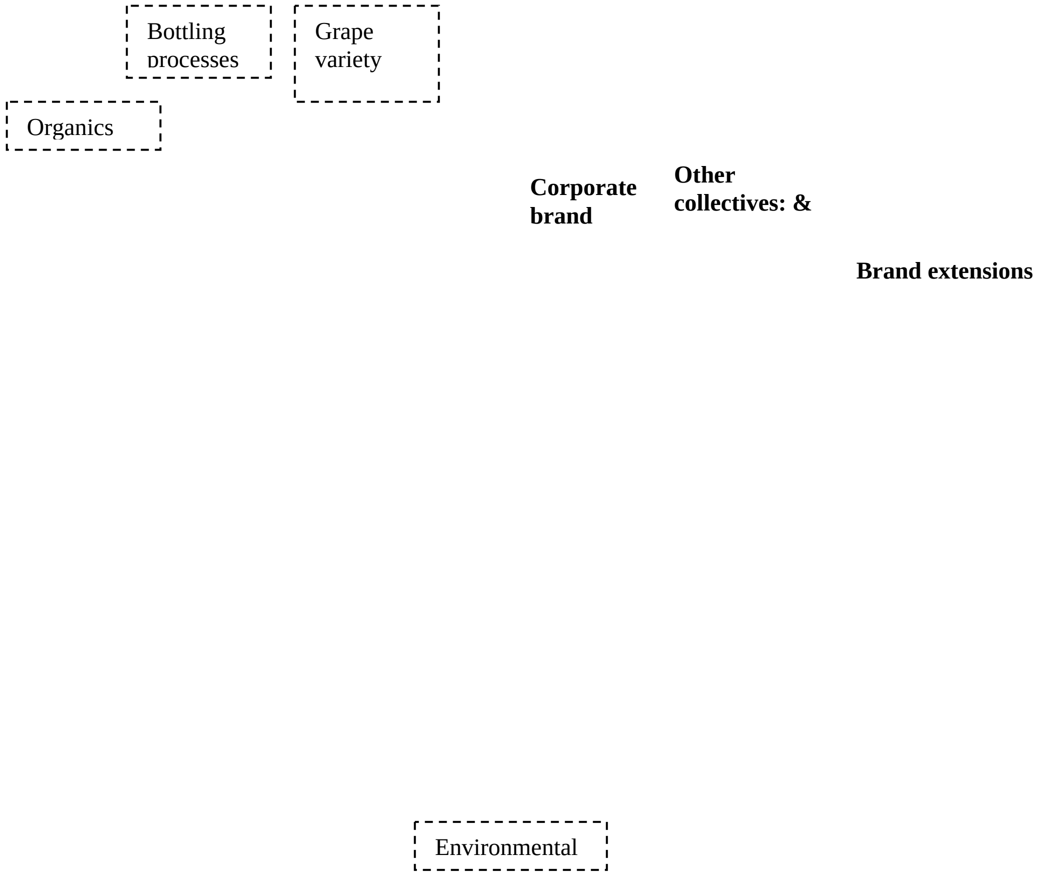
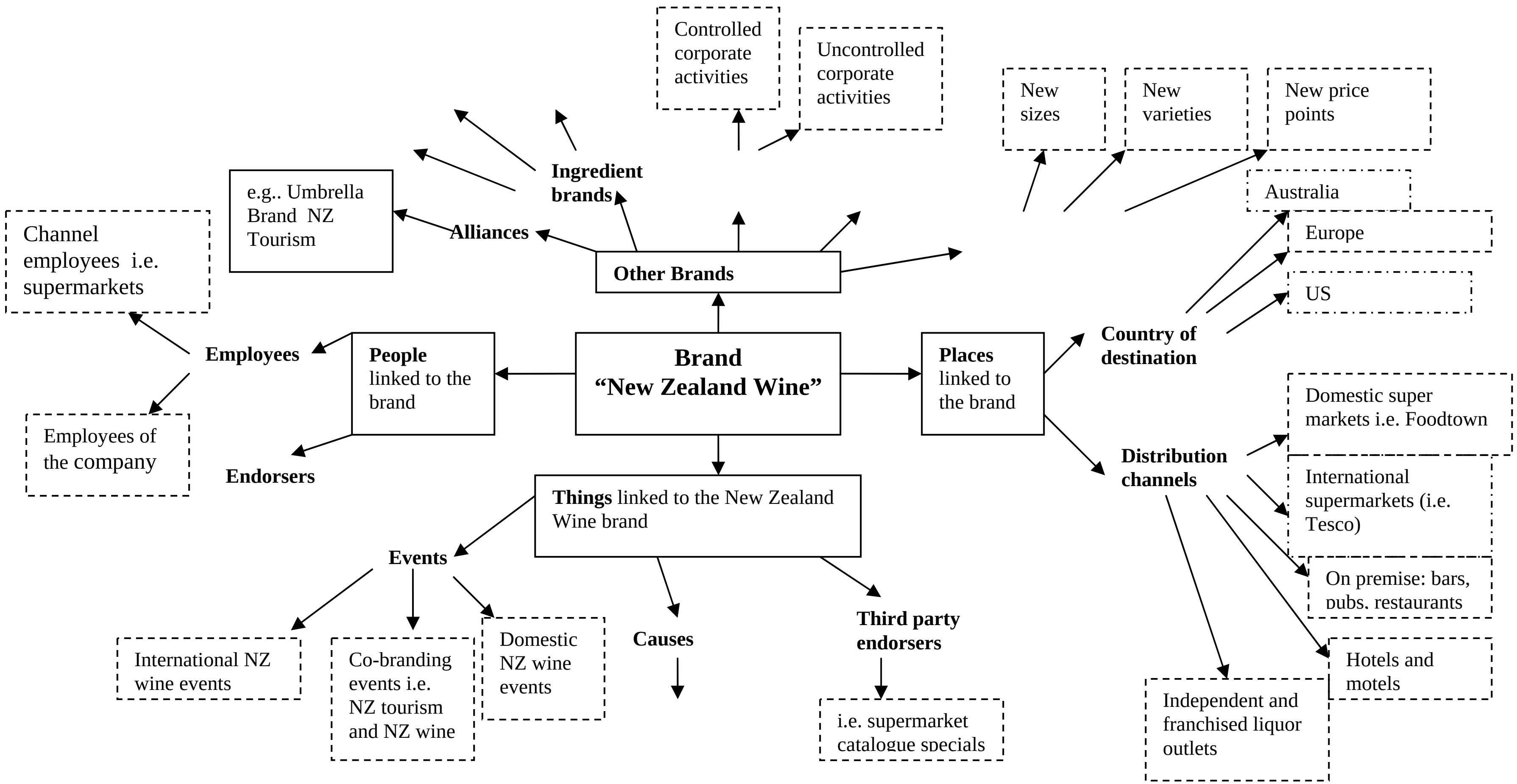
Appendix 1: Sources for the Co-creation of Value for Brand "New Zealand Wine (Authors 2008)





Source: Adapted from Keller (2003)