HOW DO FINE WINE BRANDS GROW ?

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Abstract

Consumer behaviour is often portrayed as being so complex as to be unpredictable, and hence marketing is seen as closer to a black art than a practice informed by science. Yet, this image is based on ignorance of the decades of work by marketing scientists; work that has uncovered law-like patterns in buying behaviour. These are scientific laws in the classic sense; reoccurring patterns which therefore give the power of prediction. and explanation These empirical laws provide benchmarks for marketers, but they also give deep insight into how buyers buy, how brands compete for custom, and how marketing works.

The question that this paper investigates is whether or not such laws apply to the buying and selling of wine. There are many reasons for thinking that the market for wine might be different, however we find that it exhibits the same empirical law-like pattern (the Double Jeopardy law) seen in other competitive markets. The implications are profound, and sweep away some widely held beliefs about the mystique of wine marketing.

The Start of a Scientific Revolution?

In this paper we report some serious science, not complex and opaque statistical modelling, but empirical scientific laws that generalise across a wide range of known conditions, and so provide trustworthy predictions. Such empirical generalisations are the building blocks of science (Bass 2001).

> *Science has revolutionised every discipline it has touched; now it is marketing's turn!*
> - Joseph Tripodi, Chief Marketing and Commercial Officer, Executive Vice-President, The Coca-Cola Company, Atlanta, USA (B. Sharp, 2010)

Marketing practice is documented in marketing textbooks, along with advice for how to practice effective marketing. This advice has remained much the same for 50 years or so, and textbooks do not contradict one another... competition for market share is said to require creating differentiated brands that carve off sections of market share by addressing the heterogeneity in demand, thus competing brands sell to different types of customers; brands have substantially different images; and brand loyalty varies considerably and idiosyncratically depending on each brand's positioning. This view suggests that many brands are niche brands, with small but unusually loyal customer bases; and growth is possible by becoming more tightly positioned; becoming more niche and selling more to the brand's most loyal customers. Marketing strategy is portrayed as being largely concerned with segmentation, targeting and differentiating brands so that they may command price premiums and passionate loyalty.

It would be rather difficult to find a textbook or marketing consultant that did not offer this world view. However (B. Sharp, 2010) presents ten well-established empirical laws that contradict these widely held beliefs. Sharp states that the traditional textbook view of how brands grow is not entirely wrong, it just describes a very limited part of marketing and it fails the most basic test of scientific theories – it does not lead to the known empirical laws and in some cases directly counters the laws (i.e. it predicts different patterns). Instead, building on the ten scientific laws, Sharp argues that market share growth is largely dependent on building mental and physical availability so that brands that are easier to buy for more people on more occasions, get bought more often. Thus, the role of differentiation is vastly downplayed, while the importance of distinctive branding, and wide reaching advertising and distribution is massively up-played. Brands compete largely as if they were undifferentiated options seeking the same customers (even though they are all slightly differentiated). He illustrates how markets work with the example of McDonalds, Pizza Hut and KFC, which although very functionally different, compete largely head-on as brands fighting for attention with market share that relate to their respective successes in building mental and physical availability.

But is wine different?

Perhaps it should not be surprising that the first scientific laws in marketing should conflict with theory developed in the absence of such laws. And science has a long track record of presenting fundamental discoveries that upset existing theory (e.g. Kepler's laws of planetary motion). Nevertheless the empirical laws have been described many times as revolutionary – AdNews melodramatically wrote that Sharp's book "destroys just about every point of marketing convention with hard research". The laws have been documented across hundreds of product categories, retail stores, consumer and industrial markets, different countries, and over decades. But other than cars there has been no testing in luxury, symbolic categories like wine. Also wine is a product category

that is constructed of a wider range of attributes with more levels (options to choose from) than most (typical product categories are comprised of only a few hundred varieties (Kennedy, Ehrenberg, & Long, 2000)). The wine category has thousands of different offerings which is a possible argument for establishing wine as a boundary condition for the empirical laws that have largely been observed in more prosaic, less symbolic, less hedonic product categories.

The Double Jeopardy Law

In this research we examine just one, probably the most famous, scientific law in marketing. It is known as 'the Double Jeopardy Law' and it reveals a great deal about how brands grow. It was first discovered by a sociologist William McPhee in attitudes towards movie stars, reading of comic strips, and listening to radio DJs (McPhee, 1963). Professors Andrew Ehrenberg and Gerald Goodhardt did much testing of the generalisability of the law in regards to attitudinal and buying metrics for consumer goods brands, and television programs ('from soap to soap operas'), such that Double Jeopardy is now considered extremely well established (Ehrenberg, Goodhardt, & Barwise, 1990).

The Double Jeopardy Law says that more popular items within a competitive set (e.g. rival brands in a product category) will be bought by many more people who will show slightly higher loyalty to the brand. Or, expressed in the negative, brands with less market share have far fewer customers and slightly lower brand loyalty. This is illustrated in the following table of Nielsen data on US shampoo brands (table 2.4, page 21 from Sharp 2010):

Table 1: Marketing metrics for shampoo brands

Double Jeopardy law - shampoo (USA 2005)			
Shampoo brands	Market share	Penetration (annual) %	Purchase Frequency (ave)
Suave Naturals	12	19	2.0
Pantene Pro-V	10	16	1.9
Alberto VO5	6	11	1.6
Garnier Fructis	5	9	1.7
Dove	4	8	1.5
Finesse	1	2	1.4
Average			1.7

At first glance the empirical law is surprising from a number of angles. McPhee, who was largely looking at attitudes not behaviours, thought it counter intuitive that the proportion of people who liked a particular movie star (of those who knew of the star) should depend on how many other people did not know of the movie star. Later it was realised that the Double Jeopardy Law could be explained as a statistical selection effect – less popular movie stars tended to be known by people who also knew of the more famous movie stars, when these people assigned their attitudes they split their votes (giving some to the more famous stars), meaning that less famous movie stars had to receive slightly lower liking scores. But it was still surprising that there weren't more niche brands, with small customers bases who were highly loyal. The implication is that brands are less differentiated than expected, and sell to very similar sorts of consumers as do rival brands - this was later confirmed empirically (Kennedy, et al., 2000; Romaniuk, Sharp, & Ehrenberg, 2007). It was also surprising that marketing metrics, particularly those concerning brand loyalty, were predictable - and depended simply on a brand's market share not on its positioning or marketing strategy. Many marketing plans were, and perhaps still are, based on an assumption that dramatic increases in a brand's brand loyalty are possible. If loyalty depends on the particular marketing strategy then we might expect large differences between brands, and no relationship with market share. Whereas the Double Jeopardy Law says that rival brands do not vary greatly in brand loyalty, and what variation there is is due to large differences in market share.

The Double Jeopardy Law has profound implications. It says that for a brand to grow its market share it must substantially increase the size of its customer base, which means reaching and influencing many light, occasional and non buyers. It also suggests that a niche strategy, of concentrating on winning more loyalty from existing heavy loyal buyers of the brand is unlikely to be successful at delivering growth, nor will targeting a select segment of the market. If these strategies were routinely successful then the Double Jeopardy Law would not exist in so many markets, and countries (from Australia to China to France to the USA).

Are there really niche wine brands and regions?

It is commonplace to talk about niche wine brands, and niche regions. But what does niche mean and how can we tell if a brand is niched? Of course, often the term is simply used to mean small but this is incorrect and quite misleading, the word small works perfectly well by itself. In marketing theory the term niche means a brand that barely, if at all, competes in the broad market against the

other brands. Instead it has its own segment of buyers for whom it satisfies most or all of their needs, that is they are highly loyal to this brand. This shows up in Double Jeopardy statistics as a brand with low market share or penetration but higher frequency of purchase and higher share of category requirements.

In a market that conforms to the Double Jeopardy Law there are no niche brands. In both behavioural and attitudinal metrics there are simply larger and smaller brands. Very small brands do not enjoy high loyalty, they actually have lower brand loyalty than larger brands. And two brands of equal market share will have extremely similar penetration and extremely similar loyalty metrics. This pattern, the Double Jeopardy Law, makes it very easy to spot brands that are even slightly niched. And this is our scientific approach in this paper.

In wine markets, as discussed, there are many brands, and they can be functionally very different, with different image positioning, coming from different regions and countries, with different heritage, selling at very different prices. This leads to the important empirical question, does the Double Jeopardy Law apply at all? And if it does, generally, might there not still be a number of niche brands?

We answer these questions with data concerning the upper end of the retail wine market, i.e. above the level of discounted supermarket lines where a more limited range of brands and price points dominate. Here there are many brands, many regions, many price points, and many grape varieties. Our data set comes from the wine club of a national Australian retailer, so it describes the purchases of regular wine shoppers who are interested in wine. The data spans a three-year period from October 1, 2000 through September 30, 2003. The data consists of purchase records of a sample (n=4,768) of wine buyers, each buyer had to have made a purchase at least once in each year of the three-year period to be included (i.e. customers who left or joined during the period were excluded).

These data concern buying within a single retail chain, so it may potentially slightly overstate loyalty, if consumers tend to buy a particular brand or variety in that store and different brands in other stores.

The following table (table 2) presents performance metrics by wine brand. Because of space constraints only a representative group is included; the full analysis included many more brands but showed the same patterns. Figures are appropriately rounded for clarity.

Market share for each brand is presented in rank order, alongside the two metrics that together determine those sales – *penetration* (how many customers bought the brand at least once in the period) and *average purchase frequency* (how often those customers bought the brand). The Double Jeopardy Law can easily be seen in the table, brands with less market share have lower penetration and also slightly lower purchase frequency (i.e. lower loyalty).

A second loyalty metric is also presented; SCR refers to 'share of category requirements', that is of all the wine purchases that buyers of that brand made, what proportion were devoted to that brand. All the SCR metrics are below 10% which means that the buyers of each of these brands, on average, bought them only once out of every 10+ purchases. In other words, the average customer of each brand bought other brands far more often. This apparently low loyalty is quite normal. SCR has been shown to decline over longer analysis periods; which means that as buyers make more purchases their repertoire size increases. Also given the huge number of brands in the wine market we would expect consumers to have quite large repertoires (and hence each brand gains a low SCR). Not reported here is the proportion of each brand's customers who were 100% loyal over the period, meaning that they bought no other brand (at least within that retail chain). These scores were

typically less than 1%, that is 100%-loyalty was extremely rare – hardly anyone buys just one brand of wine. Again these scores followed the Double Jeopardy law.

Table 2: Loyalty metrics for a selection of wine brands.

Brand	Market share	Penetration	Ave. Purchase Frequency	SCR
Penfolds	5%	37%	1.7	9%
Rosemount	3%	27%	1.3	7%
Lindemans	3%	24%	1.2	6%
Wynns Coonawarra Estate	3%	23%	1.4	7%
McWilliams	3%	23%	1.3	6%
Jacob's Creek	2%	22%	1.2	6%
Evans & Tate Margaret River	2%	19%	1.3	6%
Wolf Blass	2%	14%	1.3	6%
Yalumba	1%	15%	1.2	5%
D'Arenberg	1%	11%	1.2	5%
Montana Reserve	1%	10%	1.2	5%
Grant Burge	1%	10%	1.2	5%
Cape Mentelle	1%	9%	1.2	5%

Smaller wine brands have fewer buyers and also slightly lower brand loyalty.

The Double Jeopardy Law clearly holds for wine brands. The more than five-fold difference in market share across the brands shows up systematically in variation in how many buyers each brand has (from 9% to 37% penetration), and loyalty metrics like *purchase frequency* and *share of category requirements* (SCR) also vary systematically with market share but show far less dramatic variation between brands.

These wine brands differ considerably from one another; some are owned by large corporations, others are family wineries, one is from a large New Zealand wine company, some produce wines from many regions, others from a single region. Yet brands with similar market share have similar brand performance metrics, even if the brands vary in marketing strategies, histories, regions, terroir, winemaking style and so on.

Finally, classic niche brands with small highly loyal customer bases are missing, small brands have less, not more, loyal customer bases.

The implication of the Double Jeopardy pattern is clear for wine brands that wish to grow their sales and market share, that is, they must win more customers. Growth will not come from large increases in brand loyalty, that does not happen, or not at least without extremely large gains in penetration. This, in turn, has implications for which sorts of marketing tactics are likely to deliver sustained market share growth and which are unlikely to succeed.

Regions, varietals, and price tiers

Under each brand there can be a number of different wine styles, and bottles at different prices. Perhaps the wine market is structured more along these lines? Perhaps there are niche regions, with small highly loyal customer bases, or niche varietals? Finally, perhaps there are particular price points that attract a particular segment of the market?

Using the Double Jeopardy Law as a guide we explored each of these attributes. For grape varieties we found little in the way of deviations from the law. For regions we found a few slightly niched regions such as Margaret River, imported countries (NZ, France and Italy), and Pipers River Tasmania - probably reflecting the specialist, higher priced wines from these regions. Margaret River is the stand-out deviation, having much lower penetration than Coonawarra – a region with similar market share, and much higher average purchase frequency. This might reflect restricted distribution[1] for this wine region which is located so far from most of the other Eastern States regions. It probably is a much larger share brand in Western Australia and yet effectively not stocked in many Eastern state stores – this restricts its national penetration but gives it loyalty metrics on par with larger share brands (as it is a larger share brand where it sells most in Western Australia). This sort of niche phenomenon is well documented for private label brands (Scriven & Bound, 2004), and for regional brands such as the soft-drink Irn Bru which is very popular in the north of the UK but rarely seen in the South.

Table 3: Loyalty metrics for a selection of wine regions.

Region	Market share	Penetration	Ave. Purchase Frequency	SCR
Barossa Valley	10%	55%	3.4	13%
Coonawarra	9%	51%	3.1	12%
Margaret River	**9%**	**40%**	**3.8**	**13%**
Clare Valley	6%	42%	2.6	9%
McLaren Vale	5%	36%	2.5	8%
Yarra Valley	4%	27%	2.4	7%
New Zealand	4%	25%	2.8	8%
Adelaide Hills	2%	15%	1.8	9%
France	2%	13%	2.3	7%
Geelong	0.3%	4%	1.6	4%
Sunbury	0.001%	0.03%	1.0	3%

Smaller wine regions have fewer buyers and also slightly lower region loyalty.

For price tiers, the very cheapest and most expensive tiers are slightly niched, suggesting that they attract somewhat specialist segments e.g. only some people are able or willing to pay for $50+ bottles

[1] This is further supported by the fact that Coonawarra, in comparison to Margaret River, is far more dominated by fine wine brands owned by the very largest of wine companies - these are companies that provide extensive national distribution.

of wine and some buy mainly low-priced wines, but this price tier can enjoy as much loyalty as much more popular price points. Both the cheapest and most expensive price levels in table 4 show unusually low penetration for their market share, and higher purchase frequency (and other loyalty metrics). This result is due to them being particularly popular amongst a segment of buyers but much less popular with the overall market. This finding has been suggested by an earlier analysis of claimed wine price tier purchasing by Romaniuk and Dawes (2005) and a more extensive analysis by Murphy (Murphy, 2006).

But, in general, price tiers follow the Double Jeopardy Law with the more popular price levels being bought by more people and slightly more often, and less popular price levels not being niched but simply bought by fewer people and less often.

Table 3: Marketing metrics for a selection of price levels.

Price level	**Market share**	**Penetration**	**Ave. Purchase Frequency**	**SCR**
$12-14	15%	62%	4.4	17%
$16-18	10%	52%	3.6	13%
$22-24	3%	28%	2.2	7%
$4-6	**2%**	**12%**	**3.5**	**11%**
$24-26	2%	22%	1.9	6%
$28-30	1%	15%	1.6	5%
$50+	**1%**	**12%**	**2.4**	**9%**
$38-40	0.4%	5%	1.4	4%
$48-50	0.2%	3%	1.2	3%

Discussion - What does this mean for wine marketing?

Penetration is the path to growth.

The Double Jeopardy law means that the composition of a wine brand's market share is predictable, simply from market share. Brands of similar size will have very similar degrees of market penetration and very similar degrees of brand loyalty. So if a winery wishes to grow its market share it must grow the size of its customer base, that is, win more customers. The loyalty path, just talking to heavier existing customers is not viable.

Lack of niche brands and regions.

Even quite substantial functional differentiation (between price tiers, regions, or grape varieties) does little to deliver excess loyalty. There are very many small brands, regions, varieties, and price tiers with small market shares – but there are few niche brands (or niche regions, varieties or price points) and these are far less niched than people might expect.

Small brands are simply small. This does not mean they are weaker, nor imply that they are in danger of decline. It certainly does not mean that they can not grow. Small brands just have to have slightly lower loyalty. The reason for Double Jeopardy is that larger brands are easier to repeat

purchase. For example, a retail chain with more stores will, of course, have more customers, but those customers will also find it easier to repeat purchase because additional stores means they can make further purchases in different locations.

If a small brand wants to have greater loyalty, then it needs to grow its customer base. It must become easier to buy for more people, which means that it must expand its physical and mental availability - get onto more shelves in more places, and get memory of the brand into more people's heads. In recent years, with outstanding vintages focusing much global attention on Bordeaux, the Bordelaise have been criticised by some of their traditional and larger customers focussing too much attention on emerging new markets such as China. The findings presented in this paper suggest that the Bordelaise are doing the sensible thing, new customers are vital to grow demand. Champagne brands have successfully been employing this strategy for many years (A. Sharp & Smith, 1991).

Building Mental and Physical Availability

In our introduction to this paper we observed that textbooks favour a particular marketing strategy. In our experience marketing consultants concur, and that is especially true in their recommendations for the marketing of fine wine brands. Their marketing strategy recommendations stress differentiation and narrow targeting, and concentration on (developing) highly loyal consumers. In line with this strategy, advertising should stress 'unique selling propositions' and make the brand meaningful to consumers. Media should be chosen considering qualitative fit to the brand and the degree that matches the brand's own narrow targeting. Much attention is placed on heavy buyers of the brand.

The prevalence of the Double Jeopardy law does not sit well with the above strategy template. The Double Jeopardy law tells us that wine brands largely compete as if they are undifferentiated (even though they taste different) selling to similar sorts of customer base. Brands sell to the entire category, fine wine brands sell to all people who buy fine wine, individual brands do not sell to special segments of this market (and hence do not need to waste money searching to identify their brand's home segment). They fight a battle for attention, not a persuasion battle to convert buyers into hard core loyalists.

Does quality not matter? No quality, like price, affects a brand's competitiveness. It's essential to keep up with rivals quality since brands compete rather directly. Improvements over rivals in quality are opportunities to gain attention and thereby build mental and physical availability. Such gains in market-based assets allow brands to retain some of the new market share they have won when competitors match the quality advantage or when price rises to restore relative value.

The main conclusion is that marketing matters, a great deal. Fine wine brands do not fill cosy niches, protected from the marketing efforts of other wine brands. Fine wine brands need sophisticated mass marketing, they need to reach all category buyers, over and over, and remind them of the existence of their brand. Consistent clear branding, attention gaining advertising, and media that delivers cost-effective reach are the cornerstone of effective marketing.

Future Research

Our finding that the fine wine market is structurally the same as other competitive consumer markets is based on Australian data. Is it the same in France ? Is it the same in the ultra fine wine market (e.g. for classed growth Bordeaux)? We plan to find out soon.

Biographies

Dr. Byron Sharp is Professor of Marketing Science at the University of South Australia. He is director of the University's Ehrenberg-Bass Institute which is sponsored by many of the world's leading marketing corporations, companies such as Coca-Cola, Mars, General Motors, Kraft, CBS, Unilever, Nielsen. 50+ marketing scientists work with the Institute.

Byron's research into loyalty and brand performance has been published internationally in over 100 journal articles and conference papers. He is on the editorial boards of six international journals. He is author of "How Brands Grow" (Oxford University Press).

With Professor Jerry Wind at Wharton he is organising a 2012 conference assembling law-like knowledge about advertising in the new digital environment.

Dr. Justin Cohen is a lecturer and researcher in international wine marketing. He is currently based in France working with the International Vintage Master, supervising and conducting research in various European wine markets and key export destinations.

Justin specialises in the analysis of consumer behaviour and using these insights to make practical contributions to the wine industry. Dr. Cohen uses quantitative techniques on both revealed and stated preference data.

Dr. Larry Lockshin is Professor of Wine Marketing and Head of the School of Marketing at the University of South Australia. Dr. Lockshin has spent more than 20 years working with the wine industry, first as a viticulturist and now as a marketing academic and consultant.

Prof. Lockshin has published over 100 academic articles and over 200 trade articles on wine marketing. His research interests are consumer choice behaviour for wine and wine industry strategy. He is currently working on: modelling of consumer choice for wine based on simulated shopping experiments and large panel data sets, packaging and retail influences on choice, sustainability in the wine sector and success factors for small and medium sized wineries.

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