

Customer involvement management – Empirical observations of explorative studies on enrichment activities of German wineries

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- **Purpose:** *This research explores the status (extent), instruments (ideas), and outcome (impact) of customer integration in the wine business. Customer involvement, defined in the sense of “more active clients”, reflects a shift in paradigm from the historic production and marketing focus to a new focus on client relationships in the current business world. The boundaries in ancient producer-consumer business models have shifted to increasingly integrate clients in the world of production. To date, we lack a collection of empirical evidence regarding such a shift in paradigm in the wine business, the approaches and ideas being implemented, or the success and impact of such activities. This study uses interviews with consumers and producers to explore the enrichment of the wine buying experience through greater integration into the world of production.*
 - **Design:** *Three distinct empirical studies serve to assess customer involvement in the German wine business from both the supplier and the consumer perspectives. Consumers were (a) interviewed as participants of a wine fair and (b) addressed by a winery providing their client portfolio for research purposes. The third study to analyze the supplier side exploits an extensive panel research of German wineries (c) on innovation and strategy.*
 - **Findings:** *Consumers are predominantly interested in being actively involved. Interest exists for downstream but also for upstream producers’ activities. Involvement increases loyalty, thereby counterbalancing currently observable diminishing client loyalty in the wine business. However, not all consumer groups are interested in more intensive integration – hence there is an inherent risk of overinvestment beyond a certain level in this strategy. Examples of extended integration of consumers could be identified for all steps of the value-chain. Creative and extended involvement of consumers in the wine business is today mainly used to draw attention and build awareness. Creative involvement management to reduce costs or as a strategic vehicle seem not to be extensively exploited.*
 - **Practical implications:** *In the wine industry, with a product of high emotional benefit for the clients, customer involvement can yield a positive impact. Increased interaction with clients creates buzz, awareness, communication, loyalty, and, depending on the business model, economic reward if approached correctly. Creative and extensive integration models are suitable for all steps in the value chain and can have a positive effect on loyalty and sales. Winery owners can profit from “first mover positioning” via extended involvement to win over and retain customers. Practitioners can use a framework derived from the interviews to guide their entrepreneurial activities and decisions how to best structure their own portfolio to engage consumers. Entrepreneurs should be aware of the limitations of these approaches and of particular customer groups where such activities could have negative effects.*

Key words: Consumer integration, active client, involvement, innovation, strategy, first mover.

1. INTRODUCTION

In our daily life as consumers we experience far reaching interaction and integration into the world of production. The shift in paradigm from separate worlds of consumer and producer towards integrated activities and more active clients has become routine and resulted in intensified relationships with benefits for the suppliers and the consumers (Grün and Brunner 2002). For example, consumers scan their own purchases at cash registers, flight passengers check-in with mobile devices without direct staff interaction, and users link into development processes to influence or create new products and offers. As a result of increased interaction and involvement, customers identify with the suppliers and often become fans of the providers (Kumar 2004; Carbonell, et al. 2009; Vivek, et al. 2012).

In the wine industry, an experimental and experience driven marketing approach is also generally believed to result in increased loyalty, more intensive buying, and reduced price sensitivity (Hall, et al. 2010; Bruhn and Hadwich 2012), but empirical evidence on the involvement phenomena in the wine business is lacking.

This paper uses empirical research to explore the status of customer involvement in the German wine industry. Indeed, we were curious to what extent, with what focus, and with what results clients are integrated into the processes of wineries, and what expectations and experiences of intensified cooperation are going alongside creative approaches (Hall, et al. 2010, p. 304). The study covers the perspective of consumers as well as the suppliers and the observations allow to provide orientation for practitioners in the wine business in regards to customer relationship management, involvement, and therefore experience management.

2. SYNOPSIS OF CURRENT RESEARCH

The shift from a product-centric to a solution driven business and marketing paradigm, where interaction and relationship are considered important drivers when customers make decisions regarding products, services, and offers, is extensively explored in literature going back to fundamental articles of Kotler, Toffler, Gronroos and others (Toffler 1980; Kotler 1986; Goodman, et al. 1995; Ravald and Grönroos 1996; Bloemer and Ruyter 1999; Bandulet and Morasch 2005; Wilson 2005, Grönroos 2007; Klioutch and Leker 2011). The result of this shift in paradigm is an increased market pull, replacing the ancient model of suppliers pushing products into the market with strong marketing support (Kumar 2004; Dell'Era and Bellini 2009). In this context, customers' experience, based on increased involvement, is perceived as an important factor in the buying decision. Involvement of the clients is defined to create necessary relationship. Interaction with the clients to develop products, services, and offers, helps to sustainably outperform competitors (Reichwald and Piller 2005; Chien and Chen 2010; Sharma, et al 2010). New successful business models are characterized by more tasks to be performed by the customers (Schreiter 2003; Vivek, et al. 2012). Today, the so called episode activities and resulting relationship benefits are considered to stem from increased client activity (Ravald, et al. 1996; Foscht and Schloffer 2012). As a result, customer experience and involvement management become key elements in innovative business models (Bruhn and Hadwich 2012).

The wine industry is characterized by an evolution that should increase the importance of involvement. It is characterized by a transition from a historically local world of production with strong agro-focus via an industrial approach to now enter a market driven world of production (Guthey 2008; Sánchez-Hernández, et al 2010). While quality of the products dominates as key success factor in competition in the early stages of the industry evolution, in later stages

efficiency, convenience, sales, commercial approach, and customer experience are increasingly important. Hence, involvement should increase in relevance. Indeed, involvement, in the broad meaning of experience, influences the buyers' choice jointly with many other factors and determinants (Cox 2009; Orth 2010). Involvement can therefore encompass multiple situations and opportunities in the customers' search for authentic experience when deciding on wine (Hall, et al. 2010). Higher involvement – in the wine industry predominantly defined as more intensive wine drinking – positively impacts the relationship to the suppliers due to consumption intensity and the increased consumers' knowledge of and interaction with wine. Research suggests that increased involvement of clients could be the right strategy for smaller brands to draw attention (Chrysochou, et al 2011). Creating trust as a basis for brand building fosters the relationship of supplier and client and is seen as a positive result of more intensive involvement (Altschwager and Habel 2011).

Obviously, despite overall positive perception of involvement the perspective of customer involvement in the sense of increasing the customer activity level and pushing the limits of the worlds of production and consumption to new barriers has not received adequate attention so far. Therefore, we intended to explore the world of involvement in the German wine industry by looking at client activities in the world of production from both the supply and the demand side.

3. EMPIRICAL APPROACHES

We cite three different market research projects conducted in 2012. Two projects approach the subject matter from the client perspective and one from the supplier side. The market research is briefly described below. Our definition of customer involvement used in the context of these studies exceeds the definition of interaction as intensity of consumption and tasting experience (Cox 2009) since we define involvement on the basis of activities pursued by customers historically belonging to the winery and therefore the world of production. The activity can be in different steps of the value chain of wineries, such as design, marketing, sales, customer service, etc. – hence we used the value chain of the wineries to assess involvement (see figure 1).



Figure 1: Value chain as structuring element for the analysis

3.1. Research approach to explore the client perspective

Two distinct interview based research projects were conducted. For one study (A) we interviewed attendants of a wine fair on the issue of activity and involvement and for study B a winery addressed their clients with a facebook posting to participate in a research project on customer involvement (project A).

Project A resulted in 230 useable interviews. Overall, participants communicated interest in being actively involved with some preference for downstream activities. More than fifty percent of the interviewed population would enjoy integration in downstream winery activities meanwhile fortytwo percent expressed interest to be more active in upstream activities. Indeed, higher involvement seems to be rewarding since 43% of the respondents declared that stronger

involvement would increase their loyalty to the winery. More than 40% of the respondents would further accept higher prices for the wines if they had active involvement in the processes.

In the case of project B exploiting the client database of a winery, 47 respondents shared their view on integration attitude and ambitions. Two thirds of the respondents declared that they are open to and interested in being integrated actively into the processes of the winery. The segment of more intensive wine drinkers stated an even higher interest, with 80% of them communicating their ambition to be actively involved with the winery. In regards to preference of area or activities for involvement, no preferences for specific steps of the value chain were apparent since all process steps scored equally. Again, integration of customers in the world of production seems to pay off since 85% of the respondents communicated that a higher activity level and more intensive integration would increase the probability of actual winery visits and referrals. Even the interviewees with no interest in being more actively involved communicated that enhanced integration would increase their loyalty.

3.2 Research approach to explore the supplier perspective

Project C refers to a first round of a research panel where German wineries were invited to deliver information on strategy and innovation. A personalized invitation to participate in an online questionnaire was sent to more than 2,000 German wineries and resulted in 321 completed interviews. The response rate of more than 15% provides a reliable picture of the German wine industry, for the different regions, covering all size classes of winery, and various organizational and business models. Issues addressed were strategic focus, innovation activities, and success providing insights into current strategies and business models, creative and innovative instruments to tackle the challenges in the business and to win customers, and resulting satisfaction.

Looking at the stated challenges and according entrepreneurial measures to react we observe the wineries' strong perception of a need to be creative in customer relationship management and the potential of involvement to create value. Changes in customer behavior are declared as the second most important challenge in the market, after bureaucratic hurdles. Three measures beyond product changes to counter the changing behavior of the clients are identified, all of them having the potential to impact the level of involvement and activity of the clients:

- new media and communication,
- new services, and
- creation of value add.

Eighty percent of the respondents state that they need to change the way they interact with the clients. New interaction and communication is therefore the dominating measure in the innovation portfolio of the wineries. Despite a high level of awareness and commitment, implementation barriers limit the extent of customer integration that could be realized with altering communication. Still, new media activities in Germany consist primarily of web-based company descriptions and are therefore characterized by the intention of "being present". Changing the way of interaction or exploiting the potential of such activities to create new business models is only utilized by a few players in the market (Jungbauer 2012).

Creating new services, planned by 63% of the respondents, includes offering events and special wine tastings – hence customer involvement is at the core of those measures. Offering additional value adds shows a lower level of commitment as planned by 33% of the interviewed wineries. It consists of a diverse portfolio of activities certainly changing the historical boundaries of supply and consumption. They range from storage to integration of customers in

the sales activities, e.g. clients selling within their network and becoming messengers of the winery.

German wineries state to pursue strategies that are rather characterized to be product-centric. More than 85% of the respondents revealed they follow quality, price-value, or premium strategies. Only 5% of the population positions via cost leadership, an approach that requires no frills, hence less experience and involvement activities.. Although only a few (3%) wineries actually pursue a strategy focusing on delivering “value-add”, 25% of all participants declared that “value add activities” are pursued besides core strategy and that they want to develop opportunities for client involvement. Wineries with a strategic focus on value-add strategy rank lowest on results achievements and innovation measures requiring higher customer involvement often lack profitable business modeling. Those activities are pursued to increase consumer loyalty without tracking causal impact on earnings. Hence, new business models with creative customer engagement and far reaching involvement as a mean to profile in the competitive environment has not yet materialized.

4. RESULTS DISCUSSION AND MANAGERIAL IMPLICATIONS

The above described results were intended to provide insights and ideas in light of a general business phenomenon of increased client activity level. We therefore developed a framework to structure innovative ideas. Furthermore, we discuss the empirical findings considering the limitations of the approaches, also addressing specifics of the German market.

4.1. Status of involvement in the wine industry and activity framework

The explorative research revealed a portfolio of innovative activities by German wineries to increase and foster customer involvement. We could identify creative examples of customer involvement for all steps of the value chain of the German wineries: Vine partnerships make customers partial owners in the vineyard. Clients are actively involved in growing decisions for vines or on planting decisions asking their preferences and using the interaction for later sales approaches. Helping in the harvest is offered as an event and promoted by online media or blogs where clients state the fun and enjoyment they had working in the vineyards. Seminars on wine making held in the winery are successful examples of extended offer design and integration of clients in the core processes of winemaking. An online decision process invited customers to jointly create wine for a winery. Customers are actively selling wine by inviting friends for a winetastings that they hold at home – to the profit of the winery. Picking up at the winery or providing judgment on the webpage and referrals are further examples of client involvement in all steps of the value chain.

A grid for managing ideas and measures for intensified customer involvement is delivered by structuring the activities on the dimensions “customer” and “business impact” (see figure 2). Meanwhile business impact assesses the measures in regards to the fit for either cost reduction or additional revenue generation, the customer dimension determines whether the activities serve new client attraction or are mainly intended to increase the penetration of the existing client base:

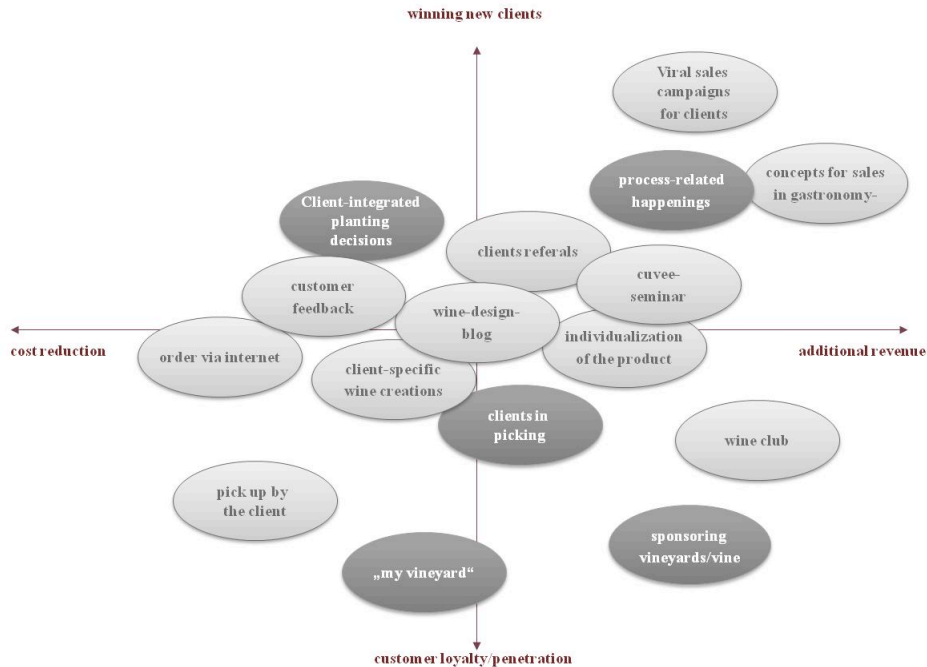


Figure 2: customer involvement grid

Besides high commitment and creativity to change the extent of customer involvement and shift the frontiers between the producer and consumer worlds, a higher level of execution of planned activities for product focused measures than for the involvement measures shows that the entrepreneurs still struggle with the implementation of such activities. More creative activities with a deeper challenge to the ancient boundaries are in the early stages of development. Those activities are mainly exploited to create relationship but even more so for storytelling and as basis for communication. They are used to profile and to create buzz in the community. A lot is concentrated on “events” to “enrich” customer experience.

4.2. Impact assessment in the light of limitations of approach

Our studies provide evidence that wine customers appreciate integration. Furthermore, we deliver arguments for positive impact of such activities for the suppliers. In the case of creative and convincing measures, clients state willingness to foster loyalty and also extend the share of wallet at the provider. Hence, pushing the barrier of client activity can pay off. Still, we interpret the findings that far reaching customer involvement rather satisfies profiling ambitions of suppliers to win new clients or to foster loyalty than as signs of the German wine industry having reached new state of industry status. Only a few instruments apparently result in higher revenues and profits. Integrated business models reducing costs are not pursued intensively.

Meanwhile there is general interest and curiosity from the client side, a segment of clients prefers low and limited involvement. Hence, entrepreneurs need to reflect and thoroughly assess their activities. This interpretation also allows to address a possible bias of our research approach that needs to be considered. Our selection of research participants surely addresses more involved wine consumers. Attendants of wine fairs as well as customers of a winery certainly show higher interest in wine. Without ignoring this bias we argue that given the explorative aim of the study the findings are valid for practitioners as well as scientists. Exploring the activity level requires to address relevant stakeholders, in this case wine drinkers. Still, their expecta-

tions, needs, and possible reactions are not homogeneous and therefore the approach delivers interesting results, especially considering the portfolio and the breadth of ideas and the need for tools to manage involvement.

Furthermore, limitations of the approach to assess the perspective of the suppliers need to be considered. Our explorative approach intended to draw a landscape of activities and a broad assessment of their impacts. We could not analyze the causal relationship of individual activities and profitability, nor could we assess the level of innovation that was realized with each measure. The examples of more actively involving clients are mainly undertaken by accompanying communication of the winery. Storytelling, though, is very important to create awareness and emotional links. Active client involvement serves to create stories but also secures intensive communication since the involved clients communicate their experiences.

Stretching the involvement is apparently a great vehicle for viral marketing. Strategic positioning on value-add or new customer integrated business models is not as obvious. Creative approaches, integrating the customer also on the basis of new technology and media can counteract the trend for diminishing loyalty of wine customers and result in adequate rewards for the entrepreneurs. The impact on profitability of such activities is rather a result of increased loyalty in a market where loyalty diminishes than of convincing business models.

Despite the findings on involvement management and according innovation, product-centric innovation and strategy is still dominating the industry. In the case of value-added services, only a minority of the planned activities have actually been put into practice as new offerings. Obviously, the industry feels more familiar with reactions around the core business than with more creative measures impacting the whole business model stretching customer relationship management.

4.3. Germany specific considerations

Germany is characterized by strong client involvement in one specific step of the value chain. Wine buying in Germany has been characterized by customers visiting their winery to buy and pick up wine. Direct sales by wineries in Germany make up for about 20% of the volume and more than 25% of the value of the German wine market. This historically developed behavior offers great opportunity for interaction and, due to the involved customer, higher prices are realized. But the changing customer behavior characterized by increased buying through different channels and locations as well as substitution of international wines for domestic products leads to decreasing visits and therefore less potential to get involved with the clients. (Hoffmann 2012) Indeed, we recognize a decrease in loyalty and market penetration of the wineries. Creative approaches, extending customer involvement also on the basis of new technology and innovative media to counteract the trend result in adequate rewards for the business owners. Hence, the wineries need to consider pushing the boundaries of client activity and creative measures to do so to win the clients, their loyalty, and to fill the gap of historic client involvement activities due to changing customer behavior.

5. CONCLUSIONS

Integration of customers into the processes of the wine industry is progressing and we observe examples all over the value chain. Extensive involvement of customers in the German wine business constitutes a marketing initiative to enhance client relationship rather than manifesting a shift of strategic paradigm. First movers are certainly recognized when pursuing client active business ideas with higher customer involvement. They exploit the ideas mainly for communication and for storytelling to profile in the market and create awareness. A strategic

cluster focusing on “value add on the basis of new rules of client interaction” is not yet developed, therefore “involvement/experiencing” pushing client/producer spheres to new limits represents rather singular activities and creative ideas than a general shift of the industry.

When addressing the customer segment of “interested, more involved and enthusiasts,” a far reaching involvement significantly increases loyalty and sales. Be attentive to the expectations of the target group given a risk of overinvestment. Overall, far reaching customer involvement needs adequate communication to celebrate with or for the clients. Therefore, creative involvement requires entrepreneurial spirit and engagement supported by leveraging new technology. Entrepreneurs exploiting creative ideas and extensive involvement approaches can be the winners to profit from profiling and recognition. A managerial grid to steer the involvement activities is provided. Limitations of this paper are mainly rooted in the explorative nature of the study.

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