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An Exploratory Analysis of Marketing Innovations in the New Zealand Wine Industry

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Abstract
◦*Purpose: This paper provides an exploratory examination of innovative product, promotion, price and distribution strategies adopted by New Zealand wine companies.*
◦*Design/methodology/approach: This study utilised secondary data to identify the innovative marketing strategies that have been adopted by New Zealand wine companies over the past decade.*
◦*Findings: This paper provides evidence that some New Zealand wine companies are implementing various marketing innovations and postulates the possible reasons for their innovative behaviour.*

Key words: innovation, marketing, wine, New Zealand

1. Introduction

Innovation is a term that has been conceptualised in numerous ways in previous research. The word ‘innovation’ is derived from the Latin word ‘innovare’, meaning to make something new. In academia, innovation has been defined as the creation of new goods (Tushman and Nadler, 1986), and the creation, development and implementation of a new idea (Damanpour and Evan, 1984; Tidd, 2005). Other authors have defined innovation as the process of making changes to something established by introducing something new which adds value to customers (O’Sullivan, 2008). Most definitions of innovation commonly refer to putting into practice a new idea that has some degree of value or usefulness. Innovation can also be a means of changing a company in the internal or external environment or as a pre-emptive action taken to influence an environment (Damanpour, 1991). Typically innovation involves the implementation of a new or improved product, a new process, a new marketing strategy or a new organisational business practice (Wunsch-Vincent, 2012). The difference between invention and innovation is that invention is the creation of a new idea or concept and innovation is the transformation of a new idea or concept into a commercial success (Ijiri, 1988).

There is a considerable body of evidence that innovation is a key input to achieving strong business performance and success (Kim and Maubourgne, 2005; Tether, 2003; Tidd, 2005), but to the authors’ knowledge there has been little analysis on the implementation of innovation strategies within the wine industry. This paper seeks to address this by identifying marketing innovations that have recently been implemented by New Zealand wine companies and providing an examination of the possible drivers for innovative behaviour.

With these aims in mind, this paper is organised as follows. The next section presents a brief overview of the innovation literature. This is followed by the research method, results and discussion, and a conclusion that documents the contribution of this study.

2. Innovation Literature

There are several different types of innovation, with product innovation being the most popular form. Product innovation has been defined as developments or changes in a product that a company offers (Hougaard, 2005). Other types include process, positioning, marketing and paradigm innovations (Couros, 2003; Hougaard, 2005; Tidd, 2005). Marketing innovations relate to the identification of new markets and opportunities, the translation of these into new products or services, and the promotion and diffusion of these products and services into the marketplace (Tidd, 2005). This paper specifically focuses on marketing innovations in relation to product, promotion, price and distribution strategies that have been implemented by New Zealand wine companies in recent years.

Innovations can be either radical or incremental in nature. Klein (1982) defined incremental innovations as consisting of improvements and small changes to products over a period of time. Incremental innovations typically make products better, faster or cheaper. In contrast, radical innovations are the creation of completely new products that have never been seen before, and these products are typically technology focused (Klein, 1982). In general, radical innovations are more expensive to implement and pose a high risk to a company.

Innovation is important to the long-term viability of a company as it can help to create a competitive advantage over other organisations. There is evidence that innovative companies sustain a higher level of performance and grow faster than non-innovators (Tether, 2003).

Other authors have also reported a strong correlation between the introduction of new products and market performance (Tidd, 2005). Indeed, Kim and Maubourgne (2005) suggested that in order to survive and thrive in increasingly competitive markets, innovation is the only solution.

Using a meta-analysis approach to examine 42 empirical studies of 21,270 companies, Rosenbusch, Brinckmann and Bausch (2011) reported that innovation has a positive effect on the performance of small and medium sized firms (SMEs). This result is pertinent because the vast majority of the almost 700 wine companies in New Zealand are SMEs. As product life cycles continue to shorten, it becomes increasingly important that companies make constant changes or improvements to their products (Levitt, 2012). Today's innovations are likely to be obsolete in the future (O'Sullivan, 2008), thus it is important that companies are competing in time (Tidd, 2005). Whilst there is little doubt that innovation is important to the ongoing success of a company, innovative behaviour does of course incur costs. It is therefore important to understand the reasons why companies choose to innovate.

There are several drivers of innovation. Innovation is said to be mainly demand-driven, and therefore the marketing activities in a company have an important role to play in identifying opportunities for new innovations (Traill and Grunert, 1997). Phillips (2010) and O'Sullivan (2008) both note that many companies innovate as a result of reacting to changes in the external market environment and a desire to become a market leader. Innovating companies want to capture the imagination of consumers by creating fresh and exciting products (Trapp, 2010) or they want to create a solution to a particular problem or identified opportunity (Phillips, 2010). Companies innovate to attract customers who have never engaged with their product or service before (Fiore, 2012). Cost reduction is also a major motivator for innovations, particularly in terms of improvements to production, logistics and retailing processes (Traill and Grunert, 1997). When consumers reduce their spending in periods of economic recession or over-supply, it is clear that companies cannot rely on 'business as usual' strategies to survive. Economic recession and over-supply are two global issues facing the wine industry and this study therefore expected to find that wine companies were engaging in innovative marketing strategies in response to these issues.

3. Method

The aim of this study was to determine the extent and types of marketing innovations that have been adopted in the New Zealand wine industry. To examine this, secondary data was gathered. The secondary data was sourced by undertaking searches of online media websites (i.e. newspaper, television and radio websites) and individual wine company websites. The key words used to search for information in these websites included 'wine', 'innovation', 'marketing', 'product', 'price', 'promotion' and 'distribution'. The collected data was filtered so that only relevant innovations were included; innovations that were excluded were those which were implemented more than ten years ago or those which did not relate well to the marketing themes in the scope of this study. Content-analysis was used to examine the qualitative data and group the innovations into marketing themes (i.e. product, promotion, price, and distribution innovations). The data was collected in the first half of 2012.

The data itself did not always provide details of the drivers behind the adoption of the innovative marketing strategy. However, based on the review of the innovation literature and knowledge of the current state of the New Zealand wine industry, this paper is able to postulate the reasons that the innovations were adopted. Further research, probably directly with the specific wine companies, would be needed to confirm these drivers.

4. Results and Discussion

The sections below describe the product, promotion, price and distribution innovations that were implemented by New Zealand wine companies in the previous ten years.

4.1 Product Innovations

Product innovation is an important way for companies to differentiate their products from competing products. Product innovation can occur through the development of completely new products, changes to the features of existing products, changes to product packaging or changes to additional services provided by the company.

Several New Zealand wineries are now producing low alcohol wines. These wines are clearly labelled and promoted as being low in alcohol. It can be surmised that the target market for these wines are (a) consumers who are health conscious, (b) those who wish to consume fewer calories, (c) those who are driving vehicles, or (d) those who want to have a drink or two at lunch time and still be productive at work during the rest of the day. This innovation is likely to have been implemented by wineries as a specific solution to these consumer problems. Wineries such as Central Otago's Felton Road and Marlborough's Forest Estate have been at the forefront of the development of lower alcohol wines.

A number of New Zealand wineries are producing different or unique blended wines as a point of difference in a crowded marketplace. These experimental blends create new products for consumers to try. Huia in Marlborough produce a wine they call 'Tangle'; this is a blend of Riesling, Pinot Gris and Gewurztraminer varietals. Similarly, Te Whare Ra winery produces a wine named 'Toru' which is Maori for three. Toru is a blend of three aromatic varieties and was produced to give the company a distinctive and interesting product. It is probable that companies have introduced new blended wines as a way of capturing consumer imagination with fresh and exciting products.

The development of sparkling Sauvignon Blanc is an innovation that relates to a completely new product. This new product was first created by Mount Riley as a product for consumers to celebrate the new millennium. Mount Riley wanted their distinctive 'Savee' wine to differentiate them from the sparkling wines made by other wine companies. In more recent years, several other New Zealand wineries have also produced sparkling Sauvignon Blanc wines. These products have helped to reduce excess stocks of Sauvignon Blanc which have existed since the large vintage of 2008. This innovation is also likely to have been implemented by companies because it will attract new consumers who haven't previously engaged with wine; in particular it is likely that these products will appeal to a younger demographic group. Adoption of this strategy will thus probably increase the sales of New Zealand Sauvignon Blanc to a new target market who will, in time, become the future consumers of premium still New Zealand wines.

Sauvignon Blanc slushies are another new product innovation. A slushie is a flavoured, frozen drink. These have started to be produced by wine companies for reasons that are similar to sparkling Sauvignon Blanc; companies can reduce excess stock holdings by turning wine into slushies. These slushies are often flavoured (e.g. strawberry or citrus) and are sold in four bottle packs, similar to other ready-to-drink (RTD) alcoholic beverages. Again, this innovation introduces wine to a new and younger target market.

4.2 Promotion Innovations

Promotion innovations consist of using new ways to market products in order to encourage consumers to purchase them (Phillips, 2010). The review of media articles and company websites found that many companies are finding innovative ways to communicate with consumers, often through the use of new technologies.

Sustainability has been of key importance to the New Zealand wine industry since the mid-1990s. Wine, like many other New Zealand agricultural products, is positioned at a national brand level as being ‘clean and green’. A majority of New Zealand wine companies have implemented one or multiple environmental management systems (Forbes and De Silva, 2012) and these sustainability credentials are beginning to appear in promotional messages. One of the first companies to focus on environmental sustainability was Sacred Hill. The company’s environmental policy is openly documented on their website and their 26 year focus on environmental sustainability is a key part of their promotional messages. Other environmental achievements, such as carbon neutral certification and falcon breeding, are also being incorporated within winery promotions. For example, Marlborough winery Grove Mill achieved global attention in 2006 when it became the first winery in the world to gain a carbon zero certification (Hallet, 2007). The Ned winery, also in Marlborough, was developed with the aim of working in harmony with the native fauna, flora and natural land formations. The Ned has worked with the Department of Conservation to provide a safe nesting site for a breeding pair of the rare New Zealand falcon in their vineyard (Drinks Trade, 2009). This work is incorporated within the story of The Ned winery on their website. The incorporation of sustainable or environmental practices within promotional messages is an innovation that has probably been adopted because of changes in the external market environment; consumers are increasingly concerned about the environmental performance of companies.

The use of social media, such as Facebook, Twitter or YouTube, as a communication tool is a reasonably recent development and one which wine companies are starting to incorporate within their marketing strategies. Social media is an ideal medium for wine companies to generate publicity or word of mouth, provide information about their wines and direct consumers to where they can purchase them. However, New Zealand wine companies have been slow adopters of these technologies. Less than half of New Zealand wineries have Facebook pages and less than forty of the more than five hundred wineries actively engage in Twitter (Bryant, 2011). Many of the larger New Zealand wineries in particular do have a presence on social media such as Facebook and have engaged employees who actively interact with consumers via this medium. Changes in the external market environment, in terms of the development and growth of new communication media, are the drivers for wine companies adopting these new technologies as a means of consumer engagement and relationship building.

Quick Response (QR) codes are another recent technological development and are something that New Zealand wineries are starting to position on their products. A QR code is a two-dimensional barcode that smartphones can read. They can be used to direct the consumer in a store through to product or brand information on a company website. Asian consumers are particularly prevalent in their use of QR codes and New Zealand wineries exporting to Asian markets are thus the most likely companies to include this technology on their products. Marlborough winery Whitehaven has included QR codes on their labels since the 2010 vintage (Flynn, 2010). When a consumer scans a Whitehaven QR code they are connected to the winery's website and to the specific tasting notes for the bottle they have scanned. Several other wine companies are also utilising QR codes, including Brancott Estate, Giesen Wines and Fromm La Strada Wines. Again, the development of new technology and the increasing use of this by consumers are the drivers for wine companies incorporating QR technology within their promotional strategies.

Collaboration is an emerging trend in the New Zealand wine industry and is starting to be used with regards to promotional strategies. The MANA (Marlborough Natural Winegrowers) is one such collaborative group. MANA was launched in 2010 and is a group of seven Marlborough wineries who are all certified organic producers. The group members work together to promote quality-focussed, organic and biodynamic winegrowing in Marlborough. They learn from each other by sharing experiences and expertise, and they undertake joint marketing activities and events. This promotional innovation is likely to be driven by the desire for each individual wine company to reduce costs through collaboration.

Clark Estate Winery provides a good example of a company that has utilised a very simple, yet very innovative, promotional strategy. This small Marlborough based winery promoted their wine by sending letters to residents in New Zealand with a surname of Clark (or Clarke). This approach created relationships between the winery and a large potential customer base. The company increased the amount of wine that they sold directly to consumers, thereby increasing the profit margin on these sales by removing any distributor or retailer from the supply chain. This innovative promotional strategy has likely attracted consumers who had not previously engaged with Clark Estate.

4.3 Price Innovations

There is little evidence of pricing innovations occurring in the New Zealand wine industry at present. Currently, wine companies are typically price takers rather than price setters in both export and domestic markets. The global wine glut has also seen the average price of exported New Zealand wine fall in recent years.

However, one wine company has adopted an innovation in order to supply wine at a lower price point. The Revolution Wine Company has re-introduced wine kegs into the Auckland marketplace (Krause, 2012). High quality wine is served to customers from high-grade stainless steel kegs in several restaurants and bars in the city; the per glass price of wine from kegs is about half that being charged for wine from bottles in many central city restaurants and bars. The owner of the Revolution Wine Company is targeting the innovative idea at younger drinkers and is seeking to spark their interest in wine. This innovation is thus likely to attract a new younger target market who had not previously consumed a substantial amount of wine. It is also an innovation that has probably been driven by a desire to reduce costs.

4.4 Distribution Innovations

Distribution innovation is about companies finding new ways to distribute a product to the end consumers (Bishop, 2005). New ways to distribute products may include developing new distribution channels, taking control of key aspects of a supply chain, or opening up new markets.

In terms of distribution innovations in the New Zealand wine industry, the major trend is centred on collaboration. Last year a collaborative partnership called Pacific Prime Wines Limited was formed between five individual wine companies (Forrest Wines, Lake Chalice Wines, Seifried Estates, Carrick Wines and Maimai Creek Winery). The aim of this distribution innovation is to make it easier for these wine companies to sell wine into the difficult United States market (Berry, 2011). Pacific Prime Wines is owned by the wine companies that it works for and is able to sell directly to US retailers and restaurants without going through a third-party importer. This innovation means that the combined strength of the wineries gives them control of the distribution channel and improves their profit margins.

Another collaborative partnership, The Family of Twelve, is a similar innovation established as an export focussed marketing alliance in 2005. The twelve wineries in the partnership are Kumeu River, Craggy Range, the Milton Vineyard, Ata Rangi, Palliser Estate, Fromm, Neudorf Vineyards, Nautilus, Lawson's Dry Hills, Pegasus Bay, Felton Road and Villa Maria. Both the Pacific Prime Wines collaboration and the Family of Twelve are distribution innovations that are likely to have been driven by a desire in the individual wine companies to reduce costs.

5. Conclusions

This paper has documented some of the marketing innovations being implemented by New Zealand wine companies. This exploratory analysis addresses the gap in current knowledge regarding the use of innovative marketing strategies in the wine industry. In particular, this paper has revealed that product and promotion innovations are most prevalent. The use of collaborative strategies is another key trend highlighted in the findings of this paper.

This paper also reveals that the majority of innovations adopted in the New Zealand wine industry are incremental, rather than radical. This result is perhaps not surprising, as incremental innovations are less expensive and risky than radical innovations. The current economic conditions and over-supply in the global wine market would thus tend to preclude individual wine companies from developing and implementing radical innovations. Many of the incremental innovations highlighted in this paper have likely been developed in direct response to the difficult current market conditions.

The innovation literature reports that there are several drivers of innovative behaviour in companies. This paper has postulated that New Zealand wine companies are implementing innovative strategies for several reasons, including cost reduction, to respond to changes in the external environment, to capture the imagination of consumers with fresh and exciting products, to provide solutions to particular consumer problems, and to attract new consumers who haven't previously engaged with a product. These drivers of innovation are particularly pertinent given the extremely competitive global wine market.

Future research could seek to confirm the drivers of innovative strategies within the wine industry through in-depth interviews with specific wine companies. Research into the reasons why some wine companies choose not to innovate would also expand current knowledge.

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