

What wineries do ... Is it what customers want? Relationship Marketing in the German Wine industry

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Abstract

◦*Purpose: This paper analyzes the communication channels employed for relationship marketing by the German wine industry. It comprises a comparison between customer retention activities of wineries with the demanded activities on the customer side.*

◦*Design/methodology/approach: We conducted our analysis by engaging two sides: On the supply side, around ca. 150 wineries responded to a questionnaire about their activities in the field of relationship marketing. The questionnaire focused on new customer acquisition, customer retention and customer win-back activities. On the demand side, around 500 customers of German wineries have been surveyed about their preferred activities of wineries as well as their most popular communication channels.*

◦*Findings: The findings of the two studies point out that most wineries conduct retention activities without having a clear vision of their strategic objectives. Financial resources are spent without measuring the outcome i.e. the effectiveness of different activities. Furthermore, there is a gap between activities preferred by customers and those actually applied by wineries.*

◦*Practical implications: Wineries should analyse which of their marketing activities are economically most successful and popular with their customers and focus as well on different customer preferences within different age groups.*

Keywords: Relationship Marketing, Wine industry, Customer retention, Consumer behaviour

1. INTRODUCTION

Over the last few decades, marketing has gone through some major changes. It has evolved from an anonymous, mass-oriented and transaction-driven practice to a more personalised and relationship based approach with the focus on the individual customer (Krafft 2007, Reichheld 1993, Reichheld 1996, Rust et al. 2010). This progress has led to the need of building long-lasting, profitable customer relationships (Reinartz and Kumar 2000, Homburg and Bruhn 2008, Berger and Nasr 1998). Relationship marketing has rapidly improved by the development of new customer relationship management methods such as sophisticated bonus, rebate and loyalty programs as well as by the development of enhanced IT processes (Leußer et al. 2011, Morgan and Hunt 1994).

Relationship marketing comprises several monetary and non-monetary advantages. On the monetary side customers who are in a long-lasting business relationship tend to buy more in terms of volume, and/or more frequently and are less price-sensitive (Krafft and Goetz 2011, Reinartz and Krafft 2001, Leußer et al. 2011, 27). Furthermore, customer retention activities oriented towards existing customers are less costly than activities to acquire new customers (Reichheld 1993). On the non-monetary side, relationship marketing leads to a higher focus on the customer basis with the effect of higher customer satisfaction and customer loyalty. Recent studies identified the positive association between customer satisfaction and the recommendation of a company or products to friends (Leußer et al. 2011, Krafft and Goetz 2011). This fact is getting even more important with the development of social media as a tool of two-way communication allowing customers to share their opinions (Szolnoki et al. 2013). In addition, customers are integrated more deeply into the company's product development process; offering them a role as a "co-producer" (Fait et al. 2013, 104, Hollebeek and Brodie 2009).

As the wine industry faces increasing competition relationship marketing is seen as a necessary tool for wineries to establish a competitive advantage on the long-term (Rueger-Muck and Wegmann 2013, 40). In addition, Bhattacharya and Bolton (2000) described the fruitful application of relationship marketing to mass markets such as the wine industry. So far, there is still very limited research on relationship marketing within the German wine industry (Lockshin and Corsi 2012, Tach 2009). Therefore, the purpose of this research paper is to explore the *status quo* of relationship marketing on the side of wineries as well as on the customer side. The study also looks at how wineries handle customer complaints.

This paper is structured into four parts; an introduction which explains the methodology and design of the study, a findings section which outlines the results of the two studies; and a section of conclusion which summarises our findings and provides theoretical and managerial implications for the German wine industry.

2. METHODOLOGY

The *first survey*, focusing on German wineries, was carried out in August 2012 to a segment of approx. 200 wineries throughout Germany that are co-operation partners of Neustadt Wine Campus, Germany, located in the south of the Rhineland Palatinate. It is a cooperation between the three Universities of Ludwigshafen, Bingen and Kaiserslautern and the Rhineland Palatinate Service Centre for Rural Regions. In addition, the questionnaire was distributed by a newsletter of the German Wine Institute (DWI) that reaches about 1.500 wineries, located in all German wine regions. A sample of approximately 150 wineries replied to the online questionnaire. So the response reaches the total of approx. 9%.

The survey contained topics such as the importance of customer retention activities for wineries

in general as well as an analysis of the frequency and content of customer retention activities wineries had done in the previous year. In addition, the survey investigated the planning and evaluation phases of such activities as well as the goals which have been achieved by them. Wineries were also asked which communication channels they use. Finally, the measurement of customer satisfaction and the handling of complaints had been examined.

Almost half of the sample is situated in the region Palatinate (49%), followed by the regions Baden (18%) and Rhinehessen (13%). The remaining 20% are distributed among the regions Nahe (5%), Württemberg, Moselle (both 4%), Franconia, Rheingau, Ahr (each 2%) and Middle Rhine (1%). 21% of the wineries state that their size of company is less than 10 ha. 40% of the wineries cultivate 11-20 ha, 40% of the wineries have more than 20 ha. Regarding staff, 42% of the wineries have 1-4 employees, followed by 34% that have 5-10 employees and 20% that have 11-25 employees. Only 4% of the wineries state that they have more than 25 employees.

The *second survey which* focused on the customer was conducted between March and July 2013 in Germany. The sample consists of 496 respondents from which 354 respondents came from a representative online panel. Participants were required to fill out a self-administrated, web-based questionnaire distributed online. The remaining 142 respondents were customers of wineries which had distributed the survey in their sales rooms.

The questionnaire itself consisted of several parts regarding preferred retention activities by wineries (i.e. invitation for wine tasting.), preferred contact frequency of information offered by a winery, most popular communication channels, reason for initial purchase from a winery as well as customers' satisfaction with the handling of complaints.

Demographically, the respondents were 60% males and 40% females. One-third of the participants live in a designated German wine region. Regarding age 30% are below 40 years old, while 39 % of the participants are within between 40 and 60 years of age. 31% of the respondents are older than 60 years.

3. FINDINGS

3.1. Customer retention of wineries

When asked how important "customer retention" was, 56% of *wineries* rated the topic of "customer retention" with "high priority". The topic is seen as even more important for the next years as 75% of the wineries rated customer retention with "high priority" in the future. However, only 35% of the participants indicated that customer retention activities currently have a high priority in their own company. On average, wineries conducted five activities to keep existing customers loyal, four activities were carried out to win new customers and two activities to win-back lost customers who had not purchased within the last two years.

The majority of wineries do not possess software appropriate for documentation, analysis and control of success for their retention activities. Only 48% of the wineries indicated having software for documentation. Only 32% stated to have software for analysis and only 23% indicated to have software enabling them to measure and compare the success of their different activities (23%). Besides the software issue, only a few wineries evaluate the success of their retention activities at all: 12% "always", 26% "frequently", 39% "sometimes" and 23% "never".

3.2. Preferred versus applied communication channels

Changing the perspective, **Figure 1** gives an overview of the most popular communication channels by *customers*. From their perspective, the *customer letter* is ranked first as preferred

channel to communicate (45%) followed by *E-Mail* (43%) and the *webpage* (32%). This shows that the classic customer letter gets into more competition with digital information channels.

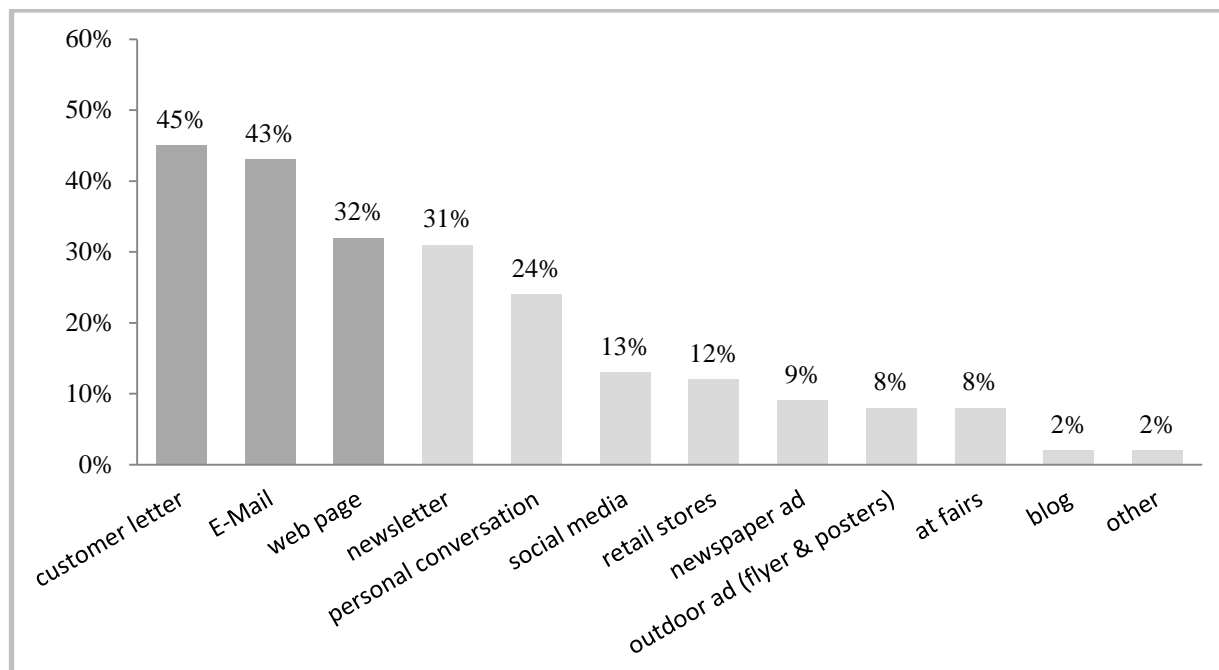


Figure 1: Preferred communication channels (multiple answers possible), n=496

As a next step these results were tested on *age* by doing a Phi-and Cramer V-test. The significant differences of preferred channels are indicated in **table 1**: while the letter is the preferred channel at an age level of 60 and above, social network channels are highly demanded (34%) by the age group below 40 while E-Mails are most favoured by the middle age group (40-60 years). It is interesting that firstly every age group has different preferences and secondly that differences even emerged among the online media channels.

Channel	Age <40 years	Age 40 – 60 years	Age >60 years
Letter	30 %	49 %	55 %
E-Mail	32 %	48 %	45 %
Social network	34 %	3 %	4 %

Table 1: Significant differences of preferred channels by age groups, Phi-, Cramer V-Test (p<0.05)

Given the fact that social networks have a high value for the youngest age group (<40 years) wineries should be alarmed by the following results: 54% of the respondents did not know whether their preferred winery had a social media presence. 26% were sure that their favourite winery did not have a social media presence and only 20% knew of the presence of their favourite winery in a social network.

How do customers feel being contacted by wineries for activities? In general, information from wineries is appreciated in dependence of the content. 22% welcomed to receive information by wineries, 52% of the participants liked to receive information depending on the kind of information while 26% did not wish to get any information at all. *Age* was found as a significant factor whether customers read the kind of information sent out by wineries: the older a customer the more likely he or she reads information by wineries. Contrarily, younger customers indicated that the content is important whether they start reading information by wineries or not.

When asked how the information affected their *buying behaviour* a total of 48.5% stated that it had a positive effect on their purchasing behaviour (initial purchase, additional purchase, higher frequency of purchase) while 45.6% stated the information had no effect on them (“did not get influenced”, “did not find the right product”). Only 3.2% specified that the given information had a negative influence on their buying behaviour.

These results of the customer side can be compared to the data about the channels *wineries* use to inform their customers. The wineries mainly use the customer letter (96%) followed by direct contact with the customer at the winery (89%) and the appearance at wine fairs (62%). Newsletters (52%) and social networks (41%) were also widely used. Only 5% of the participants stated that they use blogs (own blog or blog of a third-party).

When comparing the results of both studies a few gaps become obvious: Firstly, even though wineries use social media channels, these are not well known by customers. Secondly, a lot of effort and money is still spent on fairs while only very few customers appreciate this channel.

3.3. Preferred versus applied retention activities

Customers generally prefer information regarding wine tastings (52%), rebates (49%) as well as invitation to events (45%). A Phi- and Cramer-V-Test detects some significant results regarding *age*: rebates are mainly appreciated by customers between 40 and 60 years (75%) and above 60 years (77%). Information about offers of wine packages are most liked by people aged 40 to 60 (68%).

Looking at these findings, it seems interesting to compare the answers given by *wineries* when asked which customer retention activities they undertook during their last business year. The figures are presented in **Table 2**. The most performed activity was sending out the *price list* (17%) followed by *invitations to events* and *wine tastings* (both 14%). *Customized customer letters* have been sent out by 12% of the wineries and 11% took part at a fair. Other activities have been *visits of the winery* (10%), *home delivery of wine* (9%), *rebates* (7%), *seminars* (4%) and *wine clubs* (1%). Overall, it can be stated that wine tastings and the invitation to events are activities that wineries often pursue and consumers highly appreciate. Yet, there is a slight mismatch according to the importance of rebates: It is ranked as the second most popular method by customers but is given lower priority by wineries. Contrarily, sending out of the price list is much popular for wineries than for customers.

Customer retention activities of wineries	Percentages
Sending of price list	17 %
Invitation to events	14 %
Wine tastings	14 %
Customer letter	12 %
Invitation to fairs	11 %
Visit of winery	10 %
Home delivery	9 %
Rebates	7 %
Workshops	4 %
Wine club	1 %
Other	2 %

Table 2: Customer retention activities by wineries, n=150

3.4. Customer satisfaction and customer complaints

Another topic the survey looked at was customer satisfaction and the handling of customer complaints by wineries. The measurement of customer satisfaction conducted by most wineries is *situation-based* (49%). Only 3% of the enterprises measure satisfaction on a *half-yearly basis* and 1% *yearly*. A very high number (40%) of wineries does not measure customer satisfaction at all. 7% did not answer this question. In a second step wineries were asked on how they handle unsatisfied customers. Most wineries (92%) indicated to resolve conflicts through personal conversation. 77% offered their customers compensation such as rebates, and 61% stated that they sent out an apology letter.

In terms of controlling customer churn nearly half of the wineries (46%) did not analyze which customers did not buy again on a yearly basis. This is confirmed by the answers given by the wineries regarding the analysis of the reasons why regular customers did not buy again: only 6% of the wineries “*always*” analyze the reasons for customer loss and 12% do it “*in a regular period*”. Most wineries (51%) check for the reasons only “*sometimes*” and almost a third “*do not check at all*”.

Furthermore, only 25% of the wineries “*always*” see customer complaints as a chance for improvement. 34% “*frequently*” do so and 14% “*sometimes*” do, while the remaining 21% said it “*depends*” on the circumstances.

4. THEORETICAL AND PRACTICAL IMPLICATIONS

Wineries are dependent on their customers as they are a part of their immaterial capital. But what is a customer worth to a winery and how can relationships be quantified? These are current topics in the field of marketing research. Customer proximity, customer satisfaction and customer retention are discussed predictors of the profitability of a customer relationship. They should be important topics for wineries as well, especially in times that are characterized by customer migration and homogenization of products and services (Krafft and Goetz 2011).

Regarding customer retention, the conducted research has shown that wineries already put a lot of effort into those activities. Still, their implementation might be improvable. Wineries carry out very limited documentation on the activities undertaken so their activities cannot be compared regarding effectiveness and profitability. An evaluation would help to prioritize activities that are worthwhile versus the ones which just cost money. Furthermore, wineries could ask their customers which activities they appreciate to optimize and to adapt the activities to their wishes. The customer study shows that there are even differences between the age groups regarding the preferences of different activities. This is an additional point that the wineries should take care of: it is worthwhile to adapt to the personal preferences of the different customer groups. It would be also effective if wineries had a specific person assigned to take care of customer retention programs, but this is rarely the case. Another aspect is how much effort is put into the different customer groups, e.g. new customers, existing customers and former customers. While wineries already conduct several customer retention activities for existing customers only little is done in terms of customer win-back activities (as 38% of the wineries do not conduct any activities at all). This approach should be reconsidered as acquisition of new customers is more costly than the acquisition of former customers or regular customer care. To avoid the migration of customers, wineries should measure their satisfaction. The study shows that most of the wineries do not measure customer satisfaction regularly.

Therefore, it is not possible for them to prevent customer migration. So, we propose that wineries should improve the documentation and evaluation of the effectiveness of customer retention activities and optimize them in regard to customer demand. Additionally, customer satisfaction should be measured at least once a year to get feedback and to take appropriate retention activities.

The findings of the study concerning communication channels show that whilst social media channels are highly recommended and used by wineries, these are not very well known by their customers. This is a problem since wineries only have limited resources which should be used wisely. Additionally, this channel will become more important in future as it is already preferred by younger customers. Furthermore, the results show that customers of different age groups differ in their preferences regarding information. So it would be advisable to consider the needs and preferences of these different age groups regarding preferred communication channel and content.

To sum up, wineries need to invest more time for documentation and analysis of their relationship marketing activities, and should spend time to understand the needs and wishes of their customers. This will lead to more efficient relationship marketing.

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