

Niche Strategy and Resources: dilemmas and open questions, an exploratory study

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Abstract:

Niche strategy is often seen by wineries as the best solution to solve the problem arising from a highly competitive market and as a tool capable to ensure high margins. Thus niches can run the risk of getting overcrowded; some critical questions about the sustainability of the strategy and of the competitive advantage in the long run emerge. This paper is an exploratory research that underlines the role that resources have in shaping firm's niche strategy.

Purpose: The purpose of the paper is to investigate the linkages between the type of resources selected by wineries when defining their niche strategy and the sustainability of the competitive advantage.

Design/methodology/approach: Data have been collected through a web based survey sent to 6 wineries (from Italy and US). A qualitative analysis of responses has been carried.

Findings: The paper highlights the importance of combining a resource based perspective to the traditional approach to niche strategy definition. The results suggest directions for further researchers in order to try to fill emerging research gaps.

Key words: Niche; Strategy; Resource Based View; Sustainable Competitive Advantage.

1. INTRODUCTION

Niche strategy is often considered by wineries as the optimal solution for avoiding mass market competition and for finding a sheltered place where consumers are willing to pay a premium price. Nevertheless, background research suggests that niches can get overcrowded with dramatic consequences for the overall sustainability of competitive advantage. Thus, we recommend a general critical reflection upon niche strategy and a focus on those resources that represent the drivers for niche definition. This paper examines the problem of niche definition and the sustainability of competitive advantage by adopting a resource based perspective. After having implemented a configurational approach in research designing, we have interviewed 7 wineries through a web based survey and in depth interviews. This exploratory study aims to answer the following research questions: what is the role of internal and external resources in niche strategy definition? How do resources contribute to the overall competitive advantage? What is the linkage between resources, the degree of sustainability of competitive advantage and strategy over the time?

2. BACKGROUND RESEARCH

There is an extensive debate on niche strategy among scholars: over the years many definitions of niche strategy have been provided by academicians and besides the discussion upon terms and words (terms like niche strategy, niche marketing, niche segment have been often used as synonyms) some insights emerge: first of all there is a deep linkage between niche and differentiation (Dalgic and Leeuw, 1994; Kotler, 1991); secondly, those who aim to play in a niche have to keep a customer focused approach (Kotler, 2003) and to be strategically focused in general (Miller, 1986) in order to distinguish themselves from mass competitors (Hezar et al., 2006). Nevertheless, in the wine business, niche strategy has, in our opinion, progressively become an overused expression: niches have been seen as a solution for avoiding big players competition or a way for marketing the distinctive features of a certain product. Wineries have seen in niches a sheltered place capable to ensure profits: how can a company compete in a business characterized by fixity of inputs and oversupply? The immediate answer is “by carving out a niche”.

Thus, background research suggests us that niches are a complex matter: first of all because of the dynamics that regulate niche width and sustainability and secondly because of the approach that companies have adopted when defining their niche strategy.

Niches are capable to attract entrepreneurs (Delacroix and Solt, 1987) and research has shown how the degree of market concentration influences the birth of niches (Noy, 2010). Scholars have also underlined how the approach adopted by firms in defining their niche strategy can impact the achievement of a sustainable and effective competitive advantage in the long run (Dalgic, 2006; Delacroix and Solt, 1987). Some preliminary considerations on niche strategy can be made: niches could get overcrowded, with threats for the competitive advantage; secondly, a thoughtful approach to niche strategy is needed both on the academic side and on the practitioners' one.

In this paper we have adopted a resource based approach when investigating niche strategies in the wine business. There are several reasons that motivate our choice. First of all we have been supported by the importance given by academicians to the role that resources have in strategy making not only by Resource Based theorists (see among the others Barney, 2001a; 2001b; Ray et al., 2004) but also by eminent scholars that have focused on strategy models in general (see for instance the work by Hamel and Prahalad, 1989 where the authors examine the traditional view of strategy and the importance of strategic intent in shaping the planned strategy). A Resource based approach is on our opinion, capable to preserve the inner

dynamism of strategy that leads managers to adapt firms to environment (Chakravarthy, 1986). Dehning and Stratopoulos (2003) clearly explain the linkages between performance and resource features with a particular attention to define those elements that provide a sustainable competitive advantage by limiting resource imitation.

Thus, the relationship between resources and niche strategy definition has been explored by several scholars. Besides the importance given to resource deployment when defining niche width (see among the others, Dobrev et al., 2001), background research has underlined the role of distinctive competences and resources in niche strategy and marketing (Dalgic, 2006; Kotler, 2003) or the importance that strategic capabilities have in the formulation of a niche marketing strategy (Toften and Hammervol, 2010).

For what concerns the importance given to niches in the wine business, much of the literature has focused on niche formation: the work by Swaminathan (1995) explains the mechanisms behind niche birth in the wine industry and it highlights the critical role that changes in consumers and consumption have in niche creation.

Still a few has been done to explore the issue of sustainability of niche strategy in the wine business and the work by Santini (2014) has provided us the basis for carrying out this exploratory study.

3. RESEARCH QUESTIONS AND SURVEY DESIGNING

The paper aims to answering to the following research questions: what is the role of internal and external resources on niche strategy definition? How do resources contribute to the overall competitive advantage? What is the linkage between resources and the degree of sustainability of competitive advantage and strategy over the time?

The paper aims to achieve the following objectives:

1. Providing a description of the major relationships between niche strategy definition and resource choice;
2. Outlining the role that structural variables of the firm can have in defining a niche strategy;
3. Classifying niche strategy players into different profiles.

Researchers' work has been shaped in order to maintain a configurational approach to the research problem (Miller, 1986; Ward et al., 1996; Ward and Duray, 2000).

After having been tested, a web based version of the survey has been sent to some wineries in Italy and in the US. The work by Parrish et al. (2006) has provided us some useful inputs for formulating questions regarding how companies define their niche and about the perceived importance of niche strategy for firm's survival.

The model developed by Santini (2014) has been used as a benchmark for grouping profiles and for selecting variables. According to the model selected, companies can be classified as: Selfie niche players, if they give a high emphasis to internal resources and a lower to the external ones; Pull companies, if they give the highest importance to external resources; Combi firms if they combine internal and external resources; and Sleeping niche players if they don't give importance to resources when shaping their niche strategy.

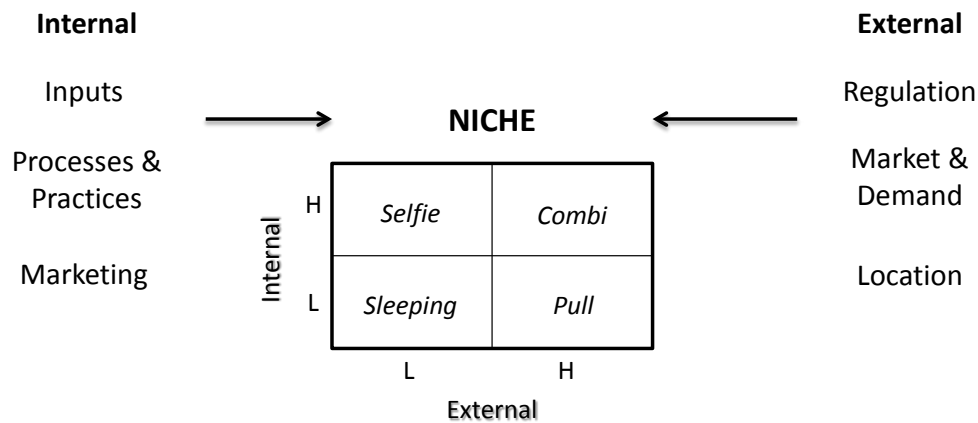
Win our view niche strategy is the result of a strategic orientation that is based on a mix of internal and external resources; resources are exploited by the firm with the aim of achieving a focused and differentiated positioning.

Thus, niche players can assume four main different profiles, as it is represented in Figure 1.

We have previously remarked the importance of adopting a sustainable perspective for what concerns niche strategy. The work by Dehning and Stratopoulos (2003) has provided some useful insights for understanding the relationships between resources, strategy making and the creation of a durable and sustainable competitive advantage.

In particular, background research suggests that causal ambiguity, lead-time, path dependency, the role of history, social complex links and time compression diseconomies have a primary role in defining a sustainable competitive advantage, since they limit resource imitation.

Figure 1, Wine nicher profiles (from Santini, 2014)



H = high presence; L = low presence

The academic literature in this field is endless: empirical researches have been carried out from various perspectives with the result of providing many scales that can be employed for empirical investigations. The work by King (2007) offers a detailed overview of the many scales employed over the years by scholars for assessing the relationships between casual ambiguity and competitive advantage; starting from this work two general considerations can be made: first of all there is a growing academic interest towards this issue; secondly, scholars may have difficulties in finding a general model can be widely implemented.

Given the difficulties above mentioned, we have decided to develop some items measured by Likert scales by starting from the insights emerging from Dehning and Stratopolous (2003); we have used a deductive scale development approach, as indicated by Hinkin (1998).

A further aspect to investigate is how to measure firm's competitive advantage. Background research suggests to consider ROA (see among the others, Dehning and Stratopolous, 2003; Newbert, 2008); a similar approach could sound as a limitation (Ray et al., 2004), since many firms can possess competitive advantages that are not reflected by business performance. For this reason we have decided to include some questions that can be used to describe how companies position themselves in terms of competitiveness with respect to competitors. Useful output have emerged from the work by Gilinsky et al. (2008) and Newbert (2008).

Based on the insights emerging from the literature we can formulate the following assumptions:

Ass 1: Niche strategy is shaped by the role given by firms to resources when planning their strategy.

Ass 2: the overall sustainability of the niche strategy depends on the set of resources that wineries have chosen.

Ass3: the existence of some inhibitors to resource imitation can ensure sustainability to the overall competitive advantage.

A list of the variables examined is available in Table 1.

Table 1, Variables

Variable	Source
Niche strategy definition	Parrish et al., 2006
Importance given to internal resources for niche definition	our elab. On Santini, 2014
Importance given to external resources for niche definition	our elab. On Santini, 2014
Casual Ambiguity	Our elab on Dehning and Stratopoulos (2003)
Lead-time	Our elab on Dehning and Stratopoulos (2003)
Path Dependency	Our elab on Dehning and Stratopoulos (2003)
Role of History	Our elab on Dehning and Stratopoulos (2003)
Socially complex links	Our elab on Dehning and Stratopoulos (2003)
Time compression diseconomies	Our elab on Dehning and Stratopoulos (2003)
Strategic orientation	Gilinsky et al., 2008
Competitive positioning	Gilinsky et al., 2008
Price Segment	Cholette & Castaldi, 2010
Market Segment Positioning	Cholette & Castaldi, 2010; Gilinsky et al., 2008
Competitive Advantage	Our elab on Dehning and Stratopoulos (2003)

4. DATA ANALYSIS

We have interviewed six companies (A,B,C,D,E,F) that differ by size (measured by bottles produced), location and by the type of production: they all produce bottled wines, and compete in different price segments, as it is shown by Table 2.

We have asked wineries to define what niche strategy is in their views and to highlight how they have pursued a niche strategy; then they have been asked if niche strategy is functional to a reduction of competitive pressure. What emerges is that there is a deep difference between the concept of niche that wineries have: some companies conceive niche strategy as a tool for reaching new geographic markets that should be combined with other strategies pursued for different products (B); others, instead, find in niche strategy the way to reach consumers who are willing to pay for a premium price and who can appreciate some features of the wine (A); for others niche is a way of excluding those clients who seek for discounted products, whilst

for other companies further aspects emerge: the need to pursue a differentiation (D) or a planned approach for targeting a specific consumer (F).

Table 3 (that is available in the Appendix) provides a description of how companies define strategy and the role given by wineries to resources when crafting their niche.

Table 2, The profile of the wineries interviewed

Company	Location	Average Year Production (bottles)	Employees		Year of foundation	Price Segments (€)									
			Full time	Part time		Icon (over 75 €)	Super Luxury (37€- 75€)	Luxury (€19 - 37 €)	Ultra Premium (11€- 19€)	Mid-Premium (€7.5 - 11€)	Popular Premium (€ - €7.5)	Fighting Varietals (€2.5 - €5)	Extreme Value (below 2,5 €)	Jug Wine 3 o 5 lt (< 2,5 €)	
A	Tuscany, Italy	220000	20		1982	*	*	*	*	*					
B	Central Italy	800000	20	20	1971					*	*	*	*	*	
C	Tuscany, Italy	20000	2	5	1911				*	*	*	*	*	*	
D	Tuscany, Italy	40000		4	1850	*			*						
E	Piedmont, Italy	7200	1	1	2006			*	*						
F	California, USA	1200000	30	30	1964		*	*	*						

The second step was to analyze on which basis companies shape their niche strategy and to define the niche strategy profile: after having outlined what the external and internal resources are, we have asked companies to rank the relevance of each type of resource in the strategy definition process. We have investigated the role played by resources in the development of a sustainable competitive advantage according to the insights emerging from the literature; we have, then focused on the approach that companies have when planning strategy (see Table 4) and the type of competitive positioning in relation to competitors (see Figure 3).

Results are shown in Figure 2, Figure 3, and Table 4.

Company A combines internal and external resources in niche strategy definition. The company thinks to have outstanding performances if compared to its relative competitors and considers the variables “lead time” and “role of history” as extremely important for maintaining the competitive advantage: for this company the time that goes by between the launch of an initiative and competitors’ reaction is relevant for preserving the sustainability of the overall competitive advantage by limiting resources imitation. Furthermore, the specific set of conditions - that ensure firm’s access to resources at a lower cost than competitors - enables A to maintain a superior competitive advantage and to preserve resources.

Also company B is a *selfie* niche company. Company B pursues a niche strategy by maintaining small volumes and high prices with the aim of reinforcing customer’s loyalty. B combines different strategies; the company competes in several market segments and sees in

niche market strategy an opportunity for reaching new markets or for reinforcing its sales network.

Company C has a profile that is in the middle between *combi* and *pull*: the company, when asked to define its relative positioning with respect to competitors, says that it competes better than competitors for what concerns product quality, price and distribution, but under many other aspects it says to be at the same level, or even lower than its competitors. Company C among the wineries observed is the one who has the lowest scores for what concerns the importance given to mechanisms that can ensure a sustainable competitive advantage by preserving strategic resources; C thinks that competitors would hardly choose to imitate company's set of resources, since imitation is time consuming, although resources are easy or inexpensive to imitate.

Companies B and D who are proactively involved in the local association and in cultivating grapes that have a strong linkage with the territory give a high relevance to the role that historical conditions can have in developing resources at a lower cost.

Company D can be defined as a *selfie* winery and it is the one with the highest "internal orientation" and the lowest "external orientation": the company gives less importance to external resources and the highest relevance to internal ones when shaping its niche strategy. The basic idea pursued by the company is to remain as much loyal as possible to the inputs and to respect the land and the planted vines. The company doesn't think that certification could have a positive role in achieving superior performances and the winemaker, who is also the owner, has spent many efforts for growing typical grape varieties that used to be cultivated in the area. D builds its relative competitive advantage on providing an excellent customer service, new products and services and on the productive philosophy - as it also emerges from the information provided in Table 3 - that it is truly inspired by sustainability.

Company E is in the middle between *sleeping* and *pull*. This company seeks in "time compression diseconomies" the main tool for maintaining a sustainable competitive advantage: winery E although it knows that its key resources and competences can easily be imitated, thinks that the time needed by competitors for gaining them would inhibit the imitation process.

Winery F defines its niche strategy mainly on external resources and can be classified as a *pull* company. The company seeks excellence towards a sustainable orientation. In general F sees itself as extremely competitive if compared to relative competitors, as it emerges from Figure 3, but the importance given to internal resources in strategy definition is limited with respect to other companies.

Another interesting aspect concerns the similarities between some companies: for example B and D who differ for sizes, productive orientation and price segment positioning show similar approaches to resource definition when carving out a niche.

Figure 2, Niche profiles

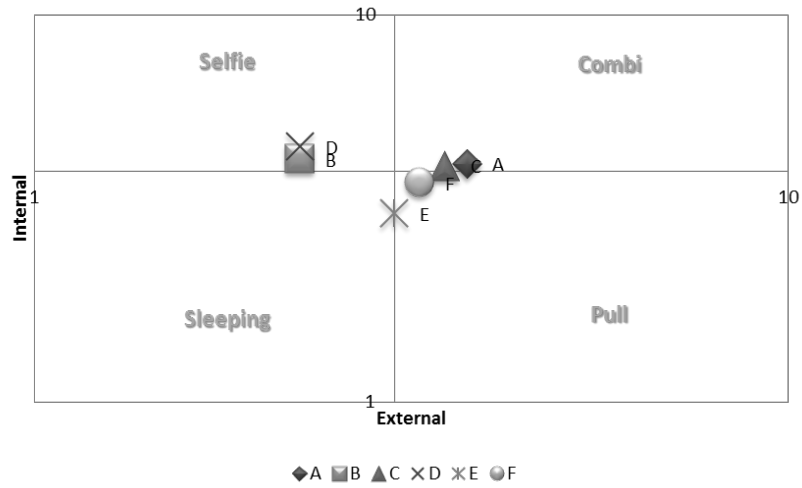
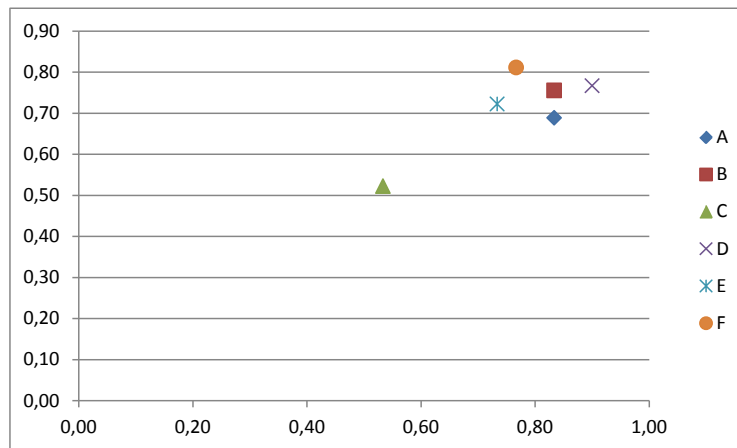


Table 3, Resource and sustainable competitive advantage and type of approach in planning strategy

		Resource sustainability (importance rank from 1 to 5)					Time compression diseconomies
Type of approach to strategy planning prevailing		Casual Ambiguity	Lead-time	Path Dependence	Role of History	Socially complex links	
A	Emerging	4	5	4	5	4	3
B	Emerging	2	3	5	4	4	4
C	Emerging	2	2	4	2	2	4
D	Emerging	3	5	5	5	5	4
E	Planned	3	4	4	3	4	4
F	Planned	3	4	4	3	4	5

Figure 3, Importance given to mechanisms capable to ensure the overall sustainability of competitive advantage (X) and competitive positioning (Y)



5. CONCLUSIONS

The data collected have helped us to highlight the relationship between resources, niche strategy and the capability that companies have to maintain a sustainable competitive advantage. Thus, a clear limitation of the paper stands in the lack of data for measuring competitive advantage. Although we have information about the way companies position themselves in relation to competitors, we could not collect data to be employed for measuring competitive advantage: in fact most of the literature in the field focuses on financial data and more specifically on indexes such as the ROA. In general, smaller companies can't provide accurate financial information. When planning the survey we have decided to employ the same scales and indexes emerging from background research although we knew about the limitations of the approach and about the ongoing academic debate over the employment of proxy variables for measuring competitive advantage. Hopefully, in the next future research should focus on developing the theoretical framework for combining the firm's perception of the relative competitive positioning to competitive advantage definition by adopting a resource based perspective.

Nevertheless, from this exploratory study it emerges that the issue of niche market strategy could not be limited to a problem of size or segmentation; we have collected data with a very high variability, although the sample under investigation is limited, and it is surprising seeing that results were simply unpredictable: there are no similarities between niche profiles and the relative importance given to mechanisms that ensure a sustainable competitive advantage; there are differences in the approach to niche market strategy even among similar companies; it is also difficult to predict a sort of alignment between resources exploitation in crafting a niche strategy and how do firm position themselves with respect to competitors. Neither there is no relationship between size of the company and the vision that companies have about niche market strategy: although we have only two big companies out of the six selected, they don't approach to niche strategy in the same way and consequently they don't give the same emphasis to internal or external resources.

Thus, we can conclude that further researches are needed in order to collect enough data for performing a cluster analysis and for highlighting similarities when defining the set of resources for niche strategy definition and for understanding the reasons behind the high variability in firm's behavior. From the study it emerges that the importance that companies give to the inhibitors of imitation doesn't reflect the importance they give to resources in niche strategy definition. Thus, the problem about the conservation of strategic resources is still open: companies are not used to think about niche strategy in the long run by adopting a resource based perspective; in our opinion, companies are not aware of the strategic implications that resources might have and this could explain why resource exploitation is not

aligned to an approach of preservation and to firm's positioning. Niche strategy is often seen as the emerging response to a situation, or simply the only choice that companies have, but a further step is required to companies, that consists of performing a critical overview of the set of resources used to shape their niche strategy and to adopt a long term perspective. Further researches should be carried also in order to educate firms to critically rethink about their strategy formulation process. Hopefully further researches should be carried in different businesses to evaluate how the characteristics of the wine business influence companies approach to niche strategy definition. This exploratory research doesn't have the merit to solve the dilemmas about niches and resource exploitation, but has the purpose to introduce scholars to a wider academic debate about the complexity of niche strategy definition and to provide a new perspective of analysis both for academicians and practitioners.

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APPENDIX

Table 4, Niche strategy, definition, role, importance for the companies interviewed

Company	The definition of niche strategy	Company's niche strategy (how and why)	Effects of niche strategy on the company	How does the company find a niche market and/or product	Factor of success in a niche market strategy	Niche strategy as help with pressure from competition
A	To offering products that are different from the mass of products to a client who can appreciate their value	We try to reach wine lovers that are willing to pay for a wine that is of superior quality and a symbol of tradition	We achieve success and sales target	We think about those who could appreciate our wine	Knowing the customers and communicating what the product can offer	The pressure of competition depends on the degree of uniqueness of the company if compared to the competitors
B	A business Project for penetrating one or more small markets (smaller compared to the dimension of the company)	We unintentionally adopt a niche strategy: it happens that we have to position ourselves on niche markets because we need to maintain a network, or because we don't have other chances, or even because we want to start a new sales relationship	Small numbers are combined to high prices. This guarantee profitability, but on the other hand new risks emerge because of some variable issues that are linked to highly priced products: sensory quality must be further guaranteed, together with product image	Prices above the average, small productions, high loyalty	High quality, perfect packaging, adopting a politically correct approach in establishing relationships with clients, high media visibility	It helps, but the effect is limited.
C	Defining targets of clients for the products that we want to sell, then try to market the wine through tastings. The policy is to exclude those clients who systematically ask for lower prices	I always seek for niches, because I don't have high volumes to sell through retailers and distributors. I try to use my direct sales channels, by employing also tastings and dinners	We try to enhance customer loyalty: we seek to have loyal customer who link the product to a company and to a place who stimulate positive reminds	I try to understand what is the profile of the customer and what he could buy	I think that the quality of the products come first together with product identity that should be willing to satisfy the expectations given by the price	It can happen that if you find your market segment you can be safe from pressure for lower prices.

D	A way to be founded among the myriad of wines in the World	I don't know: I try to make wines that don't already exist, trying to find an equilibrium between the territory, the environment and myself, and I try to consider the vines and varieties that I have planted over the years. I adopt this productive philosophy because this is what I would like to drink: a product with agricultural roots rather than based on technology	I don't know: I sell all the wine at the price I set and I don't find clients who ask me for price discounts	It happens that "the market" come to my door, sometimes, I establish contacts during wine fairs, other times it happens thanks to word of mouth	I think to be coherent (what you do and what you say); a deep respect for the land and for those who drink my wine.	Competition is part of life. If we all live under a doping effect it would be difficult to find a real champion. The champion is the one who deserve the respect of the other competitors.
E	Niche strategy is clearly defined approach to marketing or other strategic function.	We play in a niche by producing a highly artisanal product (only 2 wines) of the utmost handcraft work. Label design, visits for wine tourists, blog and social media marketing all communicate a highly personalized message to target market. Our winery targets those individuals who are looking for quality wine while at the same time offering broader range of pricing to expand the financial aspect of our key demographics. Although, company's main focus is on sustainability which attracts those with a passion for the environment. These practices of solar energy, drip irrigation, with the natural use of birds, dogs, and bees, are adequately promoted to reach out to a wide audience.	A extremely positive word of mouth and returning customers. Many clients who fall in love with my wine bring new enthusiast along.	By speaking about wine and vineyard work in a new way. We've realized a dream many wine enthusiast have as in purchasing a small vineyard and learning to cultivate wine on our own, for real and this draws to likeminded client.	absolute sustainability and transparency of all aspects of the work. being very honest and straight forward. Not trying to please everyone but rather believe that your story is told by the product.	Absolutely. Having a clearly defined own story supports the entire market and success of competitors products as well. It will turn the pressure from competition into a power of co-operation.
F	A business plan aimed to appeal to a specific audience.	Our winery targets those individuals who are looking for quality wine while at the same time offering broader range of pricing to expand the financial aspect of our key demographics. Although, company's main focus is on sustainability which attracts those with a passion for the environment. These practices of solar energy, drip irrigation, with the natural use of birds, dogs, and bees, are adequately promoted to reach out to a wide audience.	This niche strategy has positively expressed our concern for the environment to the prevailing wine consumers that share in the same goal.	It isn't so much that the company searched for a unique niche to appeal to, it was more about doing what was the right thing to do; in doing so this created an attractive allure to consumers of fine wine who care for their community.	It is vital to be genuine in your mission to gain the trust of your consumers. A niche market strategy must now the audience that is to be attracted and find the missing needs of that group in order to be successful.	With time and effort, competition is able to recreate a similar niche to obtain consumers, but the relationship with the customer is something that cannot be imitated.