Competitive advantage through direct marketing:
A case study of a small New Zealand wine business

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Abstract:

Purpose: This paper examines the various channels used by one small New Zealand wine business to sell directly to consumers and presents the advantages they gain by adopting these direct marketing strategies.

Design/methodology/approach: An interview with the owner-manager of a small wine business was used to gather primary data about their marketing strategies.

Findings: This study illustrates how a small wine business is able to earn ninety-five percent of their total revenue through direct marketing channels such as events or functions, online/email sales and the cellar door. Findings suggest that the business has gained several competitive advantages through their use of direct marketing channels, including control of pricing, higher profit margins, efficiencies in distribution and communications, reduced risk through less reliance on intermediaries, and enhanced customer relationships leading to potential loyalty and future business.

Practical implications: This case study provides information about how to sell wine directly to consumers and this may benefit other small wine businesses who want to achieve a competitive advantage through the adoption of similar marketing strategies.

Keywords: wine, direct marketing, distribution strategies, competitive advantage

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1. INTRODUCTION

The majority of wine produced today is sold indirectly through supermarkets and other large retailers. This may not be an ideal marketing channel for smaller wine businesses, as they cannot supply the required volumes and compete with larger global brands. In addition, large retailers hold considerable power over smaller suppliers and thus control pricing. Many wineries use a combination of both indirect and direct marketing channels to sell wine. This paper provides an in-depth case study of a small wine business in New Zealand that is selling almost all of its wine through direct marketing channels in order to gain a competitive advantage. The paper begins with an examination of the literature relating to direct marketing channels, specific marketing channels in the global wine industry, and the relationship between direct marketing and competitive advantage. The next sections detail the method, before the results, discussion and conclusions are presented.

2. LITERATURE REVIEW

Direct marketing can be viewed as a channel of distribution typically linking a seller and a buyer. This type of distribution strategy leads to disintermediation, or the elimination of supply chain middlemen. Direct marketing establishes an exchange relationship with a customer in which the usual supply chain intermediaries are omitted (Baron et al., 1991). Some direct marketing channels, such as farmers markets or cellar doors, use direct selling methods (i.e. face-to-face sales), whilst other direct marketing channels do not use direct selling (e.g. internet or email sales). Moller and Halinen (2000) refer to direct marketing as a practice aimed at enhancing the efficiency of marketing activities (including communications and distribution) and building loyal, profitable customers. The term direct marketing is often linked to both 'relationship marketing' and 'database marketing'. Relationship marketing is about the creation of long-term, profitable relationships with customers; these relationships may be created and maintained through personalised communications to customers. The practice of communicating and selling directly may rely on the use of a database of customer data, hence the linkage to the term 'database marketing'. The literature has noted the important relationship between supply chain management strategies and competitive advantage for a business (Li et al., 2006). This can be explained by taking a resource-based view of a business; marketing-based assets such as customer relationships, knowledge of the external environment, and distribution channels, can create customer value and thus lead to both a competitive advantage and profitability (e.g. Grant, 1991; Srivastava et al., 2001).

Evidence suggests that agricultural producers are increasingly selling directly to consumers. For example, the value of directly sold products increased by 37 percent between 1997 and 2002 in the US, and the number of farms engaged in direct marketing increased by almost six percent (Thilmany & Watson, 2004). Farmers markets, roadside stands and pick-your-own are examples of direct marketing channels. Thilmany and Watson (2004) reported that direct marketing is more likely to be used by smaller producers and they noted that an adjacent large urban population assists those producers who utilise direct marketing strategies.

Traditional wine channels

Whilst the production and consumption of wine was once quite localised (Hussain et al, 2008), since the early 1990's most wine sales have occurred through large supermarkets, hypermarkets and liquor outlets. For example, some 41 percent of wine sales in the US market in 2000 were made through supermarket channels (Wickham et al., 2001) and globally supermarkets account for 60 to 80 percent of all wine sales (Gettler, 2003). Typically, an indirect distribution channel will flow from the winery, through a wholesaler or distributor, to a retailer or restaurant, and on to the end consumer. Whilst the indirect sale of wine through large retailers is prevalent in most markets, many wineries also utilise direct channels as a component of their overall distribution strategy.

Direct marketing of wine

Bruwer (2008) suggested that the direct marketing channels most often used by French wine producers are cellar door operations, farmers' markets, wine shows, mailings, the internet, and producer associations. Other studies have reported that the most successful direct marketing channels include wine clubs, the internet and winery cellar doors (e.g. Berglund, 2003; Coppla, 2000; Bruwer & Wood, 2005; Mitchell & Hall, 2004). There is evidence to suggest that direct wine sales are increasing; Heald and Heald (2007) reported that the value of wine sold directly to US consumers has reached one billion dollars.

The majority of research on the direct marketing of wine has focused on the use of internet strategies. This is not surprising given that the rapid development of e-commerce has made it easier for businesses to engage in direct sales with customers. Indeed, Hussain et al., (2008) suggested that small wineries should exploit technology and explore new avenues to establish direct contact with wine consumers. It has been reported that wineries, particularly smaller businesses, can benefit through using internet technologies to sell wine (e.g. Goodman, 2000; Major, 2000; Mueller & Stricker, 2000). In the Australian industry, taxation benefits are associated with wine sales through direct channels and thus these distribution strategies are important for small wineries (Sellitto & Martin, 2002). In an Australian survey, Sellitto (2004) reported that direct marketing was more important for sales and profitability to smaller wineries than to those producing larger volumes of wine. Similarly, research in the French wine industry revealed that direct marketing channels are most often used and more important to smaller wineries, with the cellar door being the single most important channel (Bruwer, 2008). Earlier research with New Zealand wineries also revealed that direct marketing is essential for small wineries (Mitchell & Hall, 2004) and research in Southwest Michigan reported that smaller wine businesses sell most of their wine directly through their cellar doors in order to achieve higher profit margins (Wargenau & Che, 2006). There is also a considerable body of literature (e.g. Bruwer, 2002; Fountain, Fish & Charters, 2008; Houghton, 2001) that has examined the building of relationships and brand loyalty through winery cellar doors, wine tourism or wine events; although related, this study has not specifically focused on this area of the literature.

Direct marketing channels and competitive advantage

Literature suggests that businesses can gain advantage through utilisation of direct marketing channels. Jeuland & Shugan (1983) noted that direct channel strategies reduce a producer's dependence on traditional retailers, moderate pricing inefficiencies and may allow sales at a higher margin. There is evidence that agricultural producers can charge higher prices and achieve higher margins when marketing directly to consumers (e.g. Hardesty & Leff, 2010; Kambara & Shelley, 2002; Stephenson & Lev, 2004). Indeed, 63 percent of surveyed Californian agricultural producers stated direct channels were most profitable (Kambara & Shelley, 2002). Verhaegen and Van Huylenbroeck (2001) similarly noted that Belgian farmers achieved higher revenues when using innovative marketing channels (e.g. farmers markets and co-operatives) than when selling products through traditional retailer channels.

Thilmany and Watson (2004) suggested that agricultural producers who adopted direct marketing strategies were able to build a loyal customer base and could differentiate their products on the basis of quality, versus selling low margin commodity products through traditional retailers. This loyalty may, in part, arise from the ability for direct-purchase consumers to gain information about the producers themselves and the practices used to produce the foods they will consume (Hardesty & Leff, 2010). Supply chain management literature also supports the view that the shorter the supply chain (i.e. closeness of a business to its customers), the higher the quality of the disseminated information will be (Li et al., 2006). Hardesty and Leff (2010) also noted that direct marketing is particularly attractive for small agricultural producers as they can (a) earn higher profits through bypassing supply chain intermediaries and (b) they are able to sell volumes that would otherwise be too small for traditional retailers. The authors summarised their research with producers in the US by stating that "smaller farmers can build financially viable operations using direct marketing channels to obtain access to markets, growing their farming operations, reduce their marketing risk, and gain market power by providing consumers products with attributes that are not readily available in the industrialised produce distribution system" (pp. 17).

The importance of direct marketing channels for small wineries may relate to volume: they cannot guarantee supply to retailers and thus are more likely to sell through one or multiple direct channels. In addition, thousands of large international wine brands compete for space on the shelves of increasingly large and powerful supermarkets; smaller wine businesses are unable to compete with these brands or negotiate favourably with these retailers. Coppla (2000) reported that through the use of direct marketing channels, a winery can gain control of its brand identity and can have flexibility in terms of its pricing strategy. Similarly, Dodd (1999) reported that direct marketing channels represent the most effective strategy for small wine producers; they can control the quality of products and associated services, manage brand image, and develop long-term, mutually beneficial relationships with customers.

Whilst the literature indicates that direct marketing channels are important to smaller wine businesses, little detailed information is currently available as to how a business might go about selling their wine through direct marketing channels in order to gain a competitive advantage. This paper addresses this gap and provides insight that is likely to be of practical use to other small wine businesses.

3. METHOD

A single wine business was selected for this case study because it provides a unique case in terms of its use of multiple direct marketing channels. The case study method is an effective technique for investigating a contemporary phenomenon and is particularly suitable for the in-depth exploration of a single subject (Yin, 2003). A semi-structured interview technique was used to obtain information from the owner-manager of the business. The interview focused on identifying the business's marketing strategy, the reasons for the strategy and any competitive advantage they have gained. The interview took place in April 2015 and was carried out in person on the business's property.

The small, family-owned wine business is situated in close proximity to one of New Zealand's cities. The property includes a 12 acre vineyard, a restaurant and an event venue. The present owners purchased the property in 2002. The business is a boutique wine business, producing Pinot Noir, Riesling, Chardonnay, Sauvignon Blanc and a sparkling wine. The winemaking function is outsourced to another local winery, allowing the owners to focus on their core celebration business and avoiding the need for any investment in winemaking equipment or staff. The owner-manager talks of the decision to outsource winemaking and bottling as one that "keeps us front of house and more customer-centric". The business is classified as a Category 1 winery by the national industry body, New Zealand Winegrowers. Category 1 wineries have sales of less than 200,000 litres. These small wineries dominate the New Zealand wine industry, with 88 percent of the total 692 wineries being classified as Category 1 producers (www.nzwine.com/info-centre/statistics/). Accordingly, this business is representative of the industry as a whole.

4. RESULTS AND DISCUSSION

Marketing Strategy:

The business is positioned as a "wine celebration business", not as a winery. The owners have adopted a strong market orientation and they have a clear understanding of their customers' needs and motivations. The owner-manager stresses that the business isn't necessarily focused on selling something on the day a potential customer makes initial contact, but rather it is "about building the customer experience". In effect, the business is working to pull customers to them, rather than pushing products out to customers.

To help develop and maintain customer relationships, they incur a small cost (just $12 per month) to use a cloud-based Customer Relationship Management (CRM) tool called Capsule. This CRM software is also linked to their accounting software (i.e. Xero) and their email management software (i.e. Active Campaign). This makes it seamless for the business to book an event in Capsule and send an invoice from Xero. Every contact from any potential customer, received via email, phone or through their website, is logged into the CRM tool. Capsule and Active Campaign allow them to send personalised and customised offers to various groups of customers. For instance, after winning a wine award recently, the owner-manager sent a message to those customers who had previously purchased wine via the cellar door, email or the internet and offered these customers advanced access to purchase the unreleased trophy-winning wine. This case illustrates that a small wine business can exploit new technologies in order to establish direct contact with customers, as per the suggestion from Hussain et al. (2008). This business also provides a practical example of the links between direct marketing and both relationship marketing and database marketing.

The business is able to host a range of events of different sizes and formalities. Weddings are the primary event focus and the owners have invested in a new pavilion that is an attractive setting for outdoor weddings. The building of the pavilion has led to the number of weddings hosted by the business doubling from thirty to sixty per year. From day one, the focus has been on supplying a product that would sell. An excellent example of this is the development of a new sparkling wine that is a blend of Riesling and Pinot Noir; this was produced following a $20,000 investment in research and development. The product was developed for a target market with a specific need; that of young female customers attending weddings onsite. Aside from the pavilion, there is also a main building that includes a cellar door area for wine tastings and sales, as well as a large restaurant area and two smaller function rooms.

Through their positioning as a wine celebration business, the business primarily sells wine to customers through the restaurant and cellar door, at events such as weddings, conferences or corporate functions, and when hosting visiting cruise ship passengers. Indeed, about eighty percent of the total wine sales are made through the events side of the business. The ability to sell most of their wines through direct channels is undoubtedly related to the property's physical proximity to a large urban population; this type of location has been previously reported as assisting the direct sales of other small agricultural producers (e.g. Thilmany & Watson, 2004). The business has an annual contract to provide lunches for cruise ship passengers and these provide a regular and growing business that occurs on otherwise quiet weekdays. The wines are also promoted and sold at local food and wine shows or events; the owner-manager believes these are a good showcase for the wines, but they only attend those from which they are able to make money. Finally, customers are able to purchase wine directly from the business through the internet or via email.

A very small portion of their total wine sales are made through local specialty stores, such as florists and cafes (NB. these sales amount to just five percent of total revenue). The business does not supply any wine to supermarkets, liquor stores or other large retail outlets. It should also be noted that the business undertakes only a very small amount of advertising; the owner-manager estimates that advertising expenditure accounts for just two percent of total revenue.

Together, these outlined strategies have resulted in the business earning ninety-five percent of their total revenue through direct wine sales to customers. Direct marketing channels are thus of significant importance to the business; this provides evidence to support previous research in France, Australia, the US, and New Zealand reporting that direct marketing strategies are most important for smaller wine businesses (e.g. Bruwer, 2008; Goodman, 2000; Mitchell & Hall, 2004; Sellitto & Martin, 2002; Sellitto, 2004).

Competitive Advantage:

The choice of direct marketing channels, such as restaurant, cellar door, events and online sales, allow the business to remove intermediaries from their supply chain and thus generate greater profit margins. The owner-manager notes that the business achieves a higher mark-up when they sell wine directly to customers. He asks "well, what would you rather have? $39 a bottle being paid today versus trying to sell wholesale at $16.50 and being paid the following month?" The findings of this case study provide further support for earlier literature stating that producers can charge higher prices and achieve higher margins when selling directly to consumers (e.g. Hardesty & Leff, 2010; Kambara & Shelley, 2002; Sephenson & Lev, 2004; Verhaegen & Van Huylenbroeck, 2001).

Higher margins are not the only financial advantage the business gains from selling directly to consumers. Through this strategy they also get paid immediately by the customer and thus are able to optimise their working capital. This allows them to manage their cash flows more effectively and this is particularly important for small businesses. Indeed, the predominant reason for business failure amongst SMEs is inadequate cash flow or cash planning.

The direct marketing strategies allow the business to have greater control of pricing and they gain efficiencies by not having to 'manage' intermediaries in a supply chain. Similarly, the business is not reliant on large supermarkets that typically wield considerable power over small suppliers. This case study provides support for Moller and Halinen (2000) who referred to direct marketing as a way of enhancing the efficiency of marketing activities such as distribution and communications.

Finally, the business also gains control over customer service. As they are focused on building and maintaining close relationships with their customers, providing quality customer service is essential. By communicating directly with customers, the business is able to disseminate high quality information about their wines, production practices, and event venues directly to consumers. This ability to provide quality information has been previously identified as having a link to building loyal customers (Hardesty & Leff, 2010). The use of technology, such as their CRM tool, also provides them with a way to enhance customer relationships through personalised messages or offers. Indeed, this case study is a good example of how the value of the business has been increased through investments in CRM processes that nurture the creation of customer value. A resource-based view of the business would suggest that they have a number of marketing-based assets, including strong customer relationships and short distribution channels; the literature notes that these marketing based assets can create customer value, provide a competitive advantage, and increase profitability (e.g. Grant 1991; Srivastava et al., 2000).

5. CONCLUSIONS

In line with the comments of Dodd (1999), the profiled business provides an excellent example of a small wine business that has been able to use direct marketing channels to control the quality of their products and services, to manage their brand image, and to develop long-term, mutually beneficial relationships with their customers. By focusing on the 'wine celebration business' rather than the 'wine business' they have strategically positioned their enterprise as a customer-focused one; the customer relationships they build and maintain allow them to sell a majority of their wine through direct marketing channels. For this business, direct channels are not supplementary to selling through typical indirect channels via large retailers, but rather the direct selling of wine is the primary distribution strategy. Other small wine businesses could adopt a similar approach of maximising sales through direct channels and reducing the reliance on indirect channels in order to gain a competitive advantage; options for direct channels include selling wine through a cellar door, the internet, via email, at events or in an onsite restaurant. The use of a CRM tool can assist a winery to manage customer relationships. Future research could be carried out with a larger number of New Zealand wineries to quantify the use and importance of direct marketing channels across the industry and to examine the influence of winery size on selected distribution strategies.

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