

# SELLING WINE IN DOWNTOWN: WHO IS THE URBAN WINERY CONSUMER?

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## Abstract

Urban tasting rooms are a relatively new and growing phenomenon in the U.S. wine market. However, there has been little research concerning the specific marketing strategies that contribute to the success of urban wineries, including their desired target markets. The current study is an initial attempt to explore consumers' choices of urban wineries. Based on the data obtained through an online survey ( $N = 1,412$ ) incorporating a discrete choice experiment (DCE) with visual simulations, the study offers a profile of the urban winery consumer. Managerial implications, limitations, and suggestions for future research are included.

## 1. Introduction

With a growing consumer interest in wine, a number of wineries across the United States either have already opened or consider opening tasting rooms in cities. The expectation is that a well-considered downtown with tourism as a draw should have complimentary businesses to pull in visitors to tasting rooms, thus creating new opportunities for product exposure and brand awareness.

There are different business models of urban wineries. Some wineries base their downtown tasting rooms on the premise that this is a secondary location. These wineries operate solely as tasting rooms and do not feature components of conventional wineries, such as barrels, fermentation tanks, or bottling lines. There is another type of urban wineries whereby a wine producer chooses to locate their winemaking facility in an urban setting rather than in the traditional rural setting near the vineyards. With advances in technology and transportation, it is relatively easy for an urban winery to grow their grapes in a remote location and then transport them to the urban facility for crushing, fermentation, aging, and bottling.

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Some urban tasting rooms are located in higher traffic areas, such as touristy downtowns or higher-end retail locations. Others are situated in industrial settings, such as in a warehouse in a commercial district. Regardless of the business model or the location, the major difference from conventional wineries is that urban wineries rarely, if ever, have vines planted at their locations.

Initially, researchers have featured increasingly positive sentiments towards the success of urban tasting rooms. When a growing region is located far from major cities, urban tasting rooms provide access to consumers (Barber, Donovan, & Dodd, 2008). Hence, urban tasting rooms rely on being conveniently located to consumers. Being part of the city's core allows customers to visit whenever it is convenient for them (Weinberg, 2011). Furthermore, urban tasting rooms are located in close proximity to potential workers and cultural hubs (Barber *et al.*, 2008). Additionally, the so-called "agglomeration effect", which explains the development and success of retail malls, provides good economic reasons to have concentrated tasting rooms in high-density urban areas (McMillan, 2017).

Over a longer period however, urban tasting rooms started to show mixed results. In a recent videocast on direct-to-consumer sales, the Silicon Valley Bank revealed differences in sales based on winery locations. Data obtained through surveying U.S. tasting rooms indicated that the total tasting room wine purchases plus club sales (divided by the number of visitors per year), yield to an average of \$428 for conventional wineries with vineyards, compared to only \$197 for urban tasting rooms. Thus, people spend more than twice as much per person at the conventional winery than at the urban tasting room. In addition to the amount spent per visitor being considerably lower, the wine club conversion rates are also lower, and the number of visitors is about the third of what a conventional winery gets (Silicon Valley Bank, 2018).

Many industry experts (e.g., McMillan, 2017) have started to question whether opening an urban tasting room is even a good business decision in the first place. Judging by the metrics used in the Silicon Valley Bank survey, urban tasting rooms seem to be struggling. However, urban tasting rooms are a relatively new phenomenon and their true effectiveness is yet to be determined. One thing is clear, urban wineries do not work in the same fashion as conventional winery settings. A generalized marketing approach that is effective in rural settings may not be as useful for urban tasting rooms. Researchers are yet to explore specific marketing strategies that would contribute to the success of urban wineries, including the desired target markets, their preferences, needs, and wants.

## 2. Literature Review

### 2.1 *Distance Travelled & Distance Decay*

One of the primary advantages of urban wineries involves proximity to nearby residents and tourists (McKinsey, 2008). In delineating the factors that influence a tourist's decision to choose a specific destination, Bruwer (2003) emphasized the impact of proximity, including the geographical distance between the generating region and the tourist destination, travel time needed to cover the geographical distance, amount of money required to cover the geographical distance, and cognitive distance between the generating region and the destination. Cognitive distance is referred to as "one's perception of the distance", which is the reverse of actual distance travelled (Bruwer, 2003). This phenomenon can also be referred to as 'distance decay'. Distance decay is the 'friction of distance' and can explain why there exists an inverse relationship between the interaction of things and their proximity (Hooper, 2014). The further away a winery is, the less likely there is to be interaction, and vice-versa. Although wine consumers and tourists visit rurally located wineries, few possess the discretionary time and financial resources to do so very often. Thus, urban wineries represent an opportunity for consumers to visit a winery while incurring relatively lesser cognitive, monetary and temporal costs.

### 2.2 *Influence of Urban Architecture*

Form and function are two integral aspects of architecture (Maier, Fadel, & Battisto, 2009). Form involves the structure of architecture, or the building itself, while function refers to how people use and interact with the building. Additionally, in defining 'urban aesthetics', Nasar (1994) mentioned two particular building components: *structure* and *content*. Although urban wineries occasionally feature interesting architecture, they usually lack unique architectural elements as they are often located in either industrial buildings or in boutique retail locations. Furthermore, they are normally restricted by city governance in choosing desired architectural elements, whereas conventional wineries (which are often purposefully built to be a winery) have more freedom in choosing preferred architectural styles. Therefore, urban wineries typically feature more of the functional aspects and less, or none, of the form components of conventional wineries.

The concept of store appearance has long been thought of as a vital component of consumers' decision-making process, which Bell (1999) attributed to *functional* elements, which includes price ranges, merchandise assortment and variety, and store layout; as well as *psychological* elements inclined to inspire an emotional reaction in consumers, such as enthusiasm, affection, annoyance and happiness. Furthermore, in an early study on consumers' pleasure responses to ambient factors (specifically, music and lighting), Baker, Levy, and Grewal (1992) found that responses to the level of social interaction from staff, both ambient and social factors, resulted in greater sensations of arousal in consumers. As urban wineries fulfill more of a practical, utilitarian function, it stands to reason that they must rely more on an increased level of social interaction to inspire strong, positive emotional responses in consumers.

Urban wineries seem to need to feature functional attributes, especially pleasing ambient and aesthetic conditions. Thus, since urban wineries lack many of the qualities that conventional wineries possess, they need to place an increased emphasis on social opportunities.

### **2.3 Urban Identity**

According to Lalli (1992), the expansion of identity is a product of separation between ones' sense of self and ones' perception of others. Furthermore, the concept of place identity specifically involves the relationship between an individual and a place. Lalli specifically highlights the distinctiveness of the place or location to the individual. Thus, due to their specialness coupled with their urban location, urban wineries possess the potential to influence individuals' sense of self identity. Although urban winery consumers value convenience of proximity, frequency of social events, and wine quality, it could be expected that they also develop a sense of belongingness and identity to their nearby urban winery.

### **3. Purpose**

As evident from the recent industry statistics and a brief literature review above, urban wineries have a potential of being a successful business model, yet there is a lack of information on specific conditions that comprise that success, as well as on the type of consumers that favor urban wineries over conventional ones. The current study aims to fulfil this gap in knowledge and explores these issues. Specifically, the *purpose* of the current paper is (1) to examine consumer choices of urban wineries when presented with a choice of other types of wineries; and (2) to develop a profile of the urban winery consumer.

### **4. Research Questions**

To accomplish the two-fold purpose of the study, two research questions were advanced:

RQ<sub>1</sub>: What are consumer choices of urban wineries compared to other types of wineries?

RQ<sub>2</sub>: What is the profile of consumers who preferred urban wineries over other types of wineries?

### **5. Method**

The empirical analysis was based on an online survey incorporating a discrete choice experiment with visual simulations. Discrete choice analyses are rooted in random utility models. It is assumed that a decision maker can obtain a certain level of utility from an alternative. The models allow for deriving the probability of a particular outcome. While such models are usually based on utility maximization assumption, they can also be applied for simply describing how explanatory variables are related to the choice outcomes (Train, 2009). We fitted a multinomial logit model to the discrete choice data on building choices and estimated it using STATA 15 software (StataCorp, 2017).

### **5.1 Sample and Data Collection**

The data were collected in the U.S. market. An online survey was distributed to a consumer panel provided by a market research company, Survey Sampling International (SSI). To qualify for participation, respondents had to (1) be of the legal drinking age in the U.S.; (2) consume wine at least once in the last six months; and (3) visit at least one winery in the past. A total of 1,412 completed surveys were collected and used for data analysis.

### **5.2 Discrete Choice Experiment (DCE)**

For visual simulations, photo images depicting various winery types with combinations of different attributes were designed and created. Specifically, the DCE consisted of five attributes, each at several levels: 1) winery building type (modern, traditional, chateau, rustic, urban); 2) outside seating (modern, rustic, picnic, no seating); 3) vineyard location (in front of the winery, at the back of the winery, to the side of the winery, no vineyard); 4) slope (vineyard on the slope, flat vineyard with no slope), and (5) price, measured as a tasting fee (\$10, \$15, \$20).

The DCE was developed based on a combination of fractional factorial and orthogonal designs (Aizaki, 2012). Possible combinations of attributes' levels were reduced to 27 alternatives (i.e., 27 photo images). Using random selection without replacement, the images were arranged into nine choice sets, with each choice set consisting of three images. As a between-group factor design, the choice sets were further organized into three blocks, to which respondents were assigned based on random sampling.

Each respondent saw one block, that is - each respondent was presented with three choice sets with a total of nine images. The respondents had to choose *one* image out of the three alternatives in each choice set. They were asked to indicate their preferred choice by answering the following question, “Which of these wineries are you most likely to visit? Click on the photo of your choice”.

Even though five attributes were measured in the DCE, results for only one attribute (winery building type) are reported herewith. The main objective of the current conference paper is to develop a profile of the urban winery consumer. Thus, the focus is on reporting various consumer characteristics, such as consumer involvement, wine knowledge, wine consumption frequencies, and demographics, among others. Full results on the DCE attributes choices will be presented in a separate publication.

### **5.3 Measures**

To develop consumer profiles, a number of relevant consumer characteristics were included in the survey. To measure *wine knowledge* respondents were asked to self-assess the level of their knowledge about wine, ranging from ‘new to wine; know nothing yet’ to ‘expert or professional’. *Wine involvement* was measured by a number of items asking about the degree of importance that respondents attribute to

wine (e.g., “Wine is an important part of my life”). *Wine club membership* measure asked, “Are you a member of a wine club or wine-related organization?” *Wine consumption* was measured by two separate items – the number of bottles consumed per month and frequency of consumption, ranging from ‘every day’ to ‘a few times a year’. The *demographic characteristics* measures included gender, age, income, and marital status.

## 6. Findings

### 6.1. Choice of Urban Winery

To examine RQ<sub>1</sub>, a mixed random coefficient model was tested. The results indicated that urban winery building was the least frequent choice in the data. Table 1 summarizes the percentage frequency distribution of the winery building types choices based on a total of 4,236 observations (i.e., each of the 1,412 respondents made 3 choices). The traditional winery building was the top choice, followed by chateau, with 30.4% and 27.3%, respectively. Only 5.9% selected the urban winery building. The predicted probabilities for building choice (as expected for such a sample size these were almost identical with actual choice counts) as well as the respective standard deviations are also reported in Table 1.

**Table 1. Distribution of choices for winery buildings**

Winery building	Share of choices (%)	Predicted probabilities	
		Mean	Std. Dev.
Traditional	30.4	0.304	0.241
Chateau	27.3	0.273	0.303
Rustic	23.3	0.233	0.257
Modern	13.1	0.131	0.084
Urban	5.9	0.059	0.046

These results indicate that the presence of the urban building in the photo significantly decreases the choice of the picture, which may be an indication that the phenomenon is still new in the U.S. market. The majority of consumers gave preferences to traditional buildings, which in their minds represent conventional wineries. This supports the industry’s suggestions that urban wineries are yet to establish themselves. In order to succeed in a very competitive wine business environment, urban wineries need to know who to target. Therefore, they need to know a profile of their customer base.

### 6.2. Profile of Urban Winery Consumer

To examine RQ<sub>2</sub>, consumer characteristics were tested in terms of their effect on the likelihood of selecting a particular winery building. Below, we present and discuss results for these characteristics in

relation to selecting urban winery building. Table 2 summarizes the statistical output of the analysis (urban building as a base outcome).

The results show that higher self-assessed *wine knowledge* decreases the likelihood of selecting an urban winery compared to chateau, traditional or rustic buildings. No significant effect was found with regard to knowledge and selecting modern building compared to the urban one.

Wine consumers with high *involvement in wine* tend to prefer urban winery building over any other type of the buildings examined in the current study. Namely, respondents who showed a stronger agreement with the statement “*Wine is an important part of my life*” are less likely to select chateau, traditional, rustic or modern winery compared to urban winery.

Respondents who are *members of a wine club* or wine-related organization are more likely to select urban winery compared to chateau, traditional and rustic buildings. Choice of modern building over urban building was not significantly related to the club membership.

With regards to *wine consumption*, the number of bottles consumed per month and the frequency of wine consumption showed mixed results in terms of their influence on the likelihood of urban winery choice. While respondents with the higher number of bottles consumed per month were more likely to select urban winery over modern, rustic or traditional buildings (chateau was not significant), the higher frequency of wine consumption was associated with an increased likelihood of selecting other wineries over urban.

Lastly, some *demographic characteristics* showed significant influence on the likelihood of choice of urban winery. Males are more likely to select urban wineries compared to rustic, traditional and chateau buildings. As for age, older respondents were found to more likely select urban wineries compared to modern or rustic buildings. Further, the results indicate that single respondents tend to prefer urban wineries. On the contrary, married respondents were more likely to select modern, traditional, rustic or chateau than urban building. Finally, the likelihood of selecting urban winery is higher for lower income consumers, whereas consumers with higher incomes are more likely to select other type of wineries.

To sum up, this experimental study revealed the basic profile of the urban winery consumer. Particularly, the profile offers the following insights - consumers who chose urban winery over other types of winery buildings tend to consider wine as an important part of their lives. At the same time, these consumers possess lower levels of wine knowledge as they self-assessed how much they know about wine mainly at the ‘new to wine’ and ‘basic knowledge’ levels. These consumers are likely to belong to at least one wine club or a wine-related organization. Interestingly, while they do consume the higher number of

bottles per month compared to consumers who chose other types of wineries, their frequency of wine consumption is lower. Lastly, with regards to the demographic characteristics, males seem to prefer urban wineries more than females. Likewise, older consumers, consumers with lower incomes, and those who indicated their marital status as single, showed more preferences for urban wineries.



**Table 2. Results of multinomial logit model for building choice (urban as a base outcome)**

	<b>Winery Building</b>	<b>Coefficient</b>	<b>Significance</b>	<b>Standard Error</b>
Wine knowledge	Traditional	0.123	*	0.05
	Chateau	0.112	*	0.06
	Rustic	0.123	*	0.06
	Modern	0.044	n.s.	0.07
Wine involvement	Traditional	-0.228	***	0.06
	Chateau	-0.325	***	0.07
	Rustic	-0.339	***	0.07
	Modern	-0.258	***	0.07
Wine club membership	Traditional	-0.427	***	0.12
	Chateau	-0.692	***	0.14
	Rustic	-0.369	**	0.14
	Modern	-0.151	n.s.	0.13
Number of bottles consumed per month	Traditional	-0.021	***	0.01
	Chateau	-0.009	n.s.	0.01
	Rustic	-0.022	***	0.01
	Modern	-0.013	*	0.01
Wine consumption frequency	Traditional	0.157	***	0.04
	Chateau	0.015	n.s.	0.04
	Rustic	0.141	***	0.04
	Modern	0.114	**	0.04
Married/Living with partner (single as base)	Traditional	0.235	*	0.11
	Chateau	0.563	***	0.12
	Rustic	0.582	***	0.12
	Modern	0.537	***	0.12
Gender (female as base)	Traditional	-0.307	***	0.09
	Chateau	-0.286	**	0.10
	Rustic	-0.305	***	0.10
	Modern	-0.165	n.s.	0.10
Age	Traditional	-0.006	n.s.	0.01
	Chateau	-0.005	n.s.	0.01
	Rustic	-0.007	*	0.01
	Modern	-0.023	***	0.01
Income	Traditional	0.163	***	0.02
	Chateau	0.090	***	0.02
	Rustic	0.111	***	0.03
	Modern	0.076	**	0.03

*Note: n.s. = not significant; \* = significant at the 5% significance level; \*\* = significant at the 1% significance level; \*\*\* = significant at the 0.1% significance level*

## **7. Discussion and Managerial Implications**

The recent growth of urban wineries has numerous implications with respect to the expansion of the wine business in general, consumer attitudes and consumption of wine, and to specific wineries looking to expand into urban settings. Some of the findings from this study reveal potentially important and useful results for managers and investors in the business along with our overall understanding of the wine consumer.

With respect to demographics, the findings that males, singles, and lower income people favor urban wineries is understandable. Males tend to want functionality which is offered by the proximity and convenience of urban wineries compared to females who prefer aesthetics and so would tend to prefer something more interesting from a visual and experience standpoint. Females may also look at wineries with a chateau appearance as part of an overall social or romantic experience and hence prefer those as a destination. The finding that older consumers chose urban wineries over younger consumers was somewhat surprising, as we had assumed that younger consumers would be more likely to want to visit urban wineries to socialize, listen to music and enjoy a wine bar atmosphere. Perhaps the reason for older consumers being interested in urban wineries is simply that they prefer to stay closer to home and limit their travel budget spending, while younger consumers are more interested in the adventure of exploring wineries further afield.

The finding that urban wineries are preferred by consumers with higher involvement but lower knowledge may have some important implications. Consumers who believe that wine is important to them but they are lacking in knowledge may well open significant opportunities by the wineries to provide educational events and classes for those who want to learn more about various aspects of wine.

Several industry sources (McMillan, 2017; SVB, 2018) indicate that club conversion rates at urban wineries are considerably lower than at conventional wineries. However, the findings from this study indicated that respondents who are members of wine clubs are more likely to select urban wineries compared to other types of wineries. This may be due to the number of winery visitors that initially join a wine club after a trip to a wine region but then quickly lose interest in that winery and drop their wine club membership shortly afterwards. By contrast, an urban winery that can be visited regularly and attract members to special events may be able to hold members for a longer period of time.

Finally, consumption differences were noted between the urban winery consumer and other groups. The consumers who selected urban wineries as a choice in this study consumed more bottles per month which may have been linked to the higher level of importance they place on wine and are likely to

consume more when they visit a winery. However, the urban winery consumer had a lower frequency of consumption than those that identified with other winery buildings. These findings may indicate that consumption for this group is focused on weekends or special occasions where wine is a major element. On these occasions they have relatively heavy consumption but they do not participate in daily casual wine use as part of their lifestyle.

In conclusion, our main managerial implications suggest that since urban wineries do not rely on many of the aesthetic and functional features that conventional wineries have, to distinguish themselves from their rural counterparts, urban wineries should focus on providing educational and social opportunities for customers, as well as an even greater emphasis on the product itself. Social events, particularly through the facilitation of successful and interactive wine clubs, are another vital component of urban wineries. While the industry currently focuses on Millennials, older consumers' cohort should not be overlooked.

## **8. Limitations and Future Research**

To the researchers' knowledge, no previous studies focused specifically on urban wineries. The current research is an initial attempt to explore consumers' choices of urban wineries, as well as to examine characteristics of those consumers who chose urban wineries over other types of winery buildings. This group of consumers are likely to represent a target market for urban wineries, thus the profile of this consumer base offers valuable insights for the industry. Despite its innovative approach, the major limitation of the current study is that it was grounded in a simulated experiment. While it offers comparison results for five different types of winery buildings (which would be impossible to test in the real-life environment), consumers who chose urban wineries on a computer screen may differ from those who actually visit urban wineries. To offer better understanding of urban winery target market, future research needs to be conducted with real urban wineries' visitors. A survey replicating measures of consumer characteristics used in the current study would yield a more comprehensive profile of urban winery visitors.

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