Relationship Marketing: Building Share of Heart in the Wine Industry

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Abstract
This paper summarizes results of a comparative case study of two boutique wine producers: Bodega Los Angeles, in Mendoza, Argentina and Nassau Valley Vineyards in Delaware, U.S.A. The current research aims at examining some "Share of Heart" building techniques used in the global wine industry. Through the analysis of their approaches to customer service management, we find that each wine maker has developed successful strategies for building customer loyalty or share of heart and conclude with recommendations for adapting share of heart strategies to other boutique wine companies.

Introduction
Historically, relationship marketing was the rule up until the 1960's. During that decade marketing scholars changed their focus to the transaction. Consequently, marketers concentrated on increasing the effectiveness of the transaction using marketing techniques. As marketing thought swung back from the transaction to the relationship, it was heralded as a paradigm shift (Grőnroos, 1997; Gummesson, 1997). Despite the pendulum swing in focus away from the relationship and return to it, marketers have pursued market share as a strategic goal. It represents a behavioral measure of activity in the market place (O'Driscoll, 2006). Market share often translates into profit and a measure of protection from competitors.

Market share is the sum of purchases from two consumer groups: repeat buyers and new buyers. They represent two market segments. New buyers are often attracted by advertising or sales promotion offers that promote brand switching but may not lead to customer loyalty. Repeat buyers have some experience with the firm's products; new buyers have none. In either case, marketers may not be able to infer how committed their customers are to their products or services.

Perhaps the most notable development refining market segmentation is 1-to1 marketing (Pepper and Rogers, 1993). It has garnered significant attention over the last few decades. As a practice, its objective is to understand the preferences of specific individuals rather than groups. The ultimate goal is to satisfy the customer so well that price no longer becomes important. The solution has been to differentiate and target a group of customers with customized products. The next step is to focus on current customers and keep them by enhanced customer service, communication and continued product differentiation. The technique, one-to-one marketing, or marketing 1:1, aims at customizing a product offering so carefully that it fits the customer perfectly (Pepper and Rogers, 1996). In contrast, share of heart's target is broader. Its focus is a market segment and it uses a variety of involvement and external activities to promote good feelings. In an 'all other things being equal' situation in which competing products have few discernible differences, emotional connections become very important.

In essence, market share is insufficiently precise to insure satisfying consumers. The lack of understanding of consumer motives is one factor that prompted the current interest in relationship marketing. That interest has prompted investigation of the nature and scope of the emotional connections that underpin share of heart.

Building Emotional Connections to Increase Market Share

Businesses that can build a positive emotional bond with the consumer have a competitive advantage. Arguably, marketers who can maintain that bond have a sustainable competitive advantage. The factor is the abovementioned "share of heart" and is often illustrated by the affection that consumers feel for Harley-Davidson and its motorcycles. Thus, some marketers talk about creating products and ad campaigns that will "win the hearts" of the customer. The assumption is that share of heart will lead to market share. The picture is not so simple. The more objective factors such as product quality and price also play a role.

Relatively recently, marketers have seen the importance of share of heart. Share of heart has been described as on a continuum midway between share of mind and share of market (Day 1989). Using the framework of the cognitive, conative and affective effects of communications (Fishbein and Ajzen, 1975) we can classify each element. Share of mind represents the cognitive effects of promotional communication activities, while share of market represents the results of behavior. In contrast, share of heart represents affective effects that may result from past or current memories or experiences. Share of heart represents a degree of consumer commitment and emotional bonds that underlie a relationship with a product or service. Firms can manage customer relations to build those emotional connections. Doing so results in a competitive benefit. Share of heart seems to insulate consumers from the promotional activities of competitors. There has been relatively little academic research published on the share of heart concept. Some researchers stress the importance of product characteristics. Those with clearly defined product benefits tend to promote logical, judgmental connections. In contrast, those with less well defined or more subtle attributes may rely more on customer emotions. Products like wine are subtle enough to rely on emotion (Nowak, et al. 2006).

The transactional perspective has some distinct drawbacks and the techniques it favors can cause problems. For example, the package good industry knows the negative effects on brand equity that special promotions (e.g. price discounts, coupons) generate. Sales may rise as deal prone consumers take advantage of temporary price discounts. However, without a bond to the product, these consumers will inevitably switch brands when another deal emerges. For many companies, deal-prone consumers can comprise a significant portion of a firm's market share and may be important to the overall profit picture. However, firms have no illusions that without price breaks or other incentives, the deal-prone consumer, will go elsewhere. Moreover, truly loyal consumers who learn of the targeted special promotions may resent them. It is possible that these efforts to build market share might harm the brand equity already built between the company and its brand loyal consumers. Avoiding price promotions altogether and ignoring the deal prone customer has been a winning strategy for companies like FedEx, Bank of America and First Union Corp. Concentrating on building relationships with loyal and profitably served customers is a more rational strategy than serving all comers. Building relationships and share of heart seems to be an effective defense against aggressive promotional efforts (e.g. price reductions and ad campaigns) by other wineries.

Day (1989) detailed a variety of research approaches that could be used to plumb the emotional connections of consumers to a product or service. She noted that qualitative methods seem to be more valuable than quantitative techniques that actually measure behavior rather than emotions. Techniques such as in depth interviews, projective techniques and case analyses are examples of some effective qualitative measures.

The Role of Product in Share of Heart

The marketing literature has shown that perceived wine quality along with consumer perceptions of fair pricing relative to quality are two critical success factors for building brand equity. However, with accessible technological advancements and a number of university trained winemakers available many wineries can produce high quality products. Thus, the price/quality strategy is reproducible by many competitors and is insufficient as a sustainable competitive advantage. One additional factor that might be integrated with a proper price/quality balance is building strong emotional connections.

Globally, the culture that surrounds wine drinking offers an interesting area for studying share of heart. Wine appreciation is an art that requires experience and instruction. The novice wine taster confronts a complex product containing many nuances of flavors, aromas, and color. The complexities can be overwhelming and difficult to describe. Tutors are often necessary to point out subtle differences in face to face tasting sessions. Instructional tasting sessions tend to make wine appreciation somewhat of a social activity. Experienced individuals often compare notes and word of mouth is important. Equally important are media devoted to the study and appreciation of wine with experts who offer their opinions about the quality of vineyards and vintages. The ultimate in word of mouth is a prize for the best vintage in a sanctioned competition. Medals awarded to wines by experts are a sign of high quality and help promote sales. Relationship marketing holds that if two equally 'good' products or services compete with each other for a market segment's business, elements such as price and the relationship between buyer and seller become important. In addition, the relationship of a buyer to a product can be equally important. The dated example of the surprising negative consumer reaction to Coca-Cola's introduction of New Coke illustrates the emotional connections of consumer to product. In many cases, relationship marketing can build positive emotional associations between customers and companies.

Two Case Studies: Bodega Los Angeles and Nassau Valley Vineyards (NVV)

This comparative case study focuses on two boutique wine producers, one in Mendoza, Argentina; the other in Delaware, U.S.A. Without serious consideration, one might conclude that these two firms would represent opposite ends of the spectrum in this sector. However, in-depth analysis of their internal core competencies and external challenges indicates surprisingly more similarities than differences. Argentina and the U.S. represent two of the six largest national consumers of wine per capita (Cholette, Castaldi, and Fredrick, 2005) and two of the top five global producers (Zraly, 2004).

An analysis of the internal resources of these two wine producers reveals significant similarities in terns of their internal resource strengths, particularly in managerial experience, available agricultural land for grape growing, small winery capacity for production and marketing capabilities. Both Los Angeles and NVV are relative newcomers to New World wine production. In 1987 Peggy Raley, President of NVV, transformed a family farm into vineyards. Her expertise grew from her years with Les Amis du Vin International and as a writer for Wine magazine. Miguel Fuchs, general manager of Los Angeles began his formal association as investor and director of Los Angeles in 1986, following 35 years of experience in international investment and business consulting during which time he had developed a serious interest in wine making. Both companies own relatively small acreages drawn from farming backgrounds. In addition to control over their own grape growing processes, both have benefited from New World technologies that enable batch production in small company-owned wineries (Bartlett, 2003), producing less than 120,000 bottles per year. Both companies sell a limited number of distinguished varietals and blends. Both firms have developed marketing capabilities focused on publicity and word of mouth, rather than large-scale advertising.

An analysis of the competitive environment of Los Angeles and NVV reveals that the challenges these two entrepreneurs face are similar. Both compete in the super-premium wine market segment, which features wine priced in the $10-15 range (Gilinsky and Castaldi, 2004). Each is competing in the U.S. wine market where wine consumption had reached an all-time high of 2.19 gallons per capita in 2005; while domestic sales grew by .9%, imports grew at 5.6% (Adams Business Media, 2006). Argentine wine exports to the U.S. grew by more than 40% in 2006 (Robinson, 2007). Particularly good news for Los Angeles, NVV and other boutique wine producers, brands selling fewer than 1 million 9-liter cases led U.S. market growth in 2005 (Caputo, 2006).

The U.S. industry in the super-premium market segment is highly fragmented, allowing small producers to compete along side the giants in this industry. Success is measured by the wine-makers' abilities to produce high-quality wines in limited quantities known as "on-location" wines (Gilinsky and Castaldi, 2004). A profile of the U.S. wine consumer is someone in the 35-55 age bracket, approximately evenly split between men and women. Adults in families earning over $75,000 per year represent the largest segment, at 31.4% of the wine consumed (Gilinsky and Castaldi, 2004, 117-118).

Marketing and Customer Relationships Build Loyalty and "Share of Heart"

Recent attention by marketing academics is enhancing our understanding of wine marketing and building brand equity. In this section we compare and contrast the approaches that Los Angeles and NVV have taken to using personal selling techniques, along with word-of-mouth and publicity to gain brand-loyal customers.

Similarities and Differences

Both vineyards use the time-honored technique of the sampling or tasting room. Visiting the room allows consumers to experience the taste, appearance and aroma of a vineyard's products. Research suggests that by understanding their target customers, "wineries can learn how to meet the customers' expectations for the type of tasting room experience that will lead to positive word of mouth, wine club memberships, and repeat purchases (Novak, Thach, and Olsen, 2006).

Both companies also offer websites to welcome new customers while encouraging interactions with repeat customers. NVV's website is basic and is earmarked for a major renovation. Clearly management wants more. In contrast, the website at Los Angeles offers pages in Spanish and in English for its foreign customers in the U.S. and Europe. The company's goal is prominently presented: To become one of the best wineries in Argentina within a three year period (Bodega Los Angeles, 2005). The superior quality of Los Angeles' wine is highlighted and reinforced on the website by descriptions of agricultural characteristics ideal for grape growing, new technologies for production that bring out natural flavors, and skilled oenologists. Visitors to the website can contact the company for information and can learn more about company by exploring various themes through the home page: 1) The winery; 2) Wines; 3) The wine-making team; 4) Tourism; Photo Gallery; and 5) Traceability. One is invited to participate in various activities, such as: 1) Purchasing "Landolino" (the Los Angeles brand); 2) Joining "Club Los Angeles" whose membership is limited to the first 100 subscribers and includes receipt of a case of wine each month, an electronic bulletin and other social benefits; 3) Subscribing to a free electronic newsletter; and 4) Inquiring about investment opportunities in grape-growing and wine-making business through the company's affiliated investment services company, Los Angeles SRL (Bodega Los Angeles, 2006a).

Expanding the Spectrum of Experiences: Building Relationships and Emotional Attachments

In addition to its use of winery tours and wine tasting experiences, NVV exploits event marketing to connect with its customers. Its website proclaims, "Join us for concerts, festivals, and special events." One of those special events generates a bit of fun and a great deal of word of mouth. [http://www.nassauvalley.com/.] NVV hosts a grape stomping contest in which contestants squash grapes with their bare feet. Notably, the resulting juice is not used in winemaking, but given to the contestants. One can only imagine the 'life' of the photos that visitors take and show their friends. They must capture the fun they had and the warm feelings that they have toward the winery. In addition, the vineyard is located in a region that boasts sophisticated dining and entertainment. NVV uses its hospitality facilities to host a number of adult events. The perfect example is a jazz concert series that allows visitors to sample the vineyard's wine by the glass or bottle and enjoy jazz. The musicians are well known and highly rated local and regional artists. Their stature helps to draw patrons locally and from outside the area. Peggy Raley, owner, sometimes entertains visitors during evening concerts and her fame and talent make this a natural co-promotional technique. It seems that the combination of sophisticated jazz and wine is a perfect match. Other concerts feature classical musicians like the Canta Libre Chamber Ensemble. Canta Libre is a New York based chamber ensemble that specializes in music for flute, harp, and strings. Once again, sophisticated music from professionals make a great match for enjoying wine.

NVV follows a new product introduction strategy that aims to produce high quality varietals and blends that gain notice. When that strategy succeeds, it garners impressive amounts of publicity and creates a larger than life image for the company. Winning wine judging contests is one of the most important brand equity building techniques it uses. When one of its wines wins an award, the vineyard garners significant recognition within the industry and from the public. In selecting candidates for competition, NVV relies on its employees and the public. Loyal NVV customers with educated palates know what is good and have suggested that specific wines be submitted for judging. When knowledgeable connoisseurs make recommendations, NVV listens. Asking customers for advice has two benefits. One is that they become increasingly involved with the vineyard. The second is that their opinions are valuable and that creates positive word of mouth. Although Los Angeles has yet to win Argentine wine contests, the bodega employs a similar strategy to establish its brand equity.

In Argentina, Los Angeles' physical facilities are functional, but do not lend themselves to festival events. However, the company offers alternatives that deepen relationships between the company and its customers. For example, members of Club Los Angeles are invited to special wine-tasting dinners and to participate in excursions to the Atuel Canyon, a multi-hued ravine with white-water rafting and a massive reservoir for water sports and fishing.

Los Angeles' electronic newsletter is another method for providing updates and maintaining communication with current and potential customers. The newsletter features a photo gallery, including tourists' visits. It features many of the same themes as the website, but also offers articles of interest, promotions, and new options available to customers. For example, the December 2006 issue announced a new service, called the "custom wine service" in which the client makes decisions across the entire value chain of activities from grape growing to cask selection and bottling, thereby creating a unique, customer-specific brand. As a result, you receive approximately 300 bottles of wine for a total cost of between $2,000 and $3,000 U.S, or $7-10 per bottle (Bodega Los Angeles, 2006b.)

Los Angeles affiliate, Los Angeles SRL, offers wine enthusiasts two approaches to investing in the Argentine wine industry. For the client who desires 100% ownership LASRL assists in the purchase of land, vineyards, and/or orchards and assists with all the legal work required to finalize the purchase transaction. Alternatively, LASRL develops and manages projects for passive investors who prefer to leave oversight of grape growing and production in the hands of Los Angeles experts.

Implications

In both cases, the wineries found success in going beyond good products to connect with their customers on the emotional level. Both have focused on making strong associations between the firm and the customer. The intent seems to make customers feel like members of a family. The results seem to show that the emotional bonds are based on experience. The stronger, more novel the experience, the stronger the emotional connection. Memorable events like wine tasting are easy to duplicate and offer little sustainable competitive advantage. Events like concerts, hosted wedding receptions, and grape stomping are more innovative and unique and could be expected to stand out from competition. Similarly, membership in an exclusive club which provides advice and a supply of product conveys a connection stronger than the anonymous visit to a wine tasting room. The ultimate connection may be the investment opportunities that Los Angeles provides. The share of heart building techniques outlined here may be valuable to other competitors. In any case, they underscore the value of building relationships with customers.

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