Bordeaux 2016 Abstract Submission

Title
Competing in 'no man's land' ... can marketing turn a sow's ear into a silk purse? An experimental study.

I want to submit an abstract for:
Conference Presentation

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Keywords
Experiment, masstige versus commercial wine, marketing

Research Question
Can marketing influence consumers' perception of a commercial quality wine such that they are willing to pay 'masstige' wine prices?

Methods
Experimental method detailed in the abstract

Results
Experiment will be conducted at Melbourne Business School in January 2016

Abstract
Bordeaux Conference, 2016

Competing in ‘no man’s land’ ... can marketing turn
da sow’s ear into a silk purse?
An experimental study

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ABSTRACT

Overview
This study aims to further our understanding of the way a wine’s objective characteristics (brand and price) combined with marketing promotion, influences the willingness to pay (WTP) of wine consumers. Specifically, we conduct an experiment to test the proposition that commercial grade (E grade) wines, when appropriately priced and promoted, attract a high WTP than higher quality (B grade) wines.

This question has practical significance for wine companies who wish to compete in the so-called ‘masstige’ market – the ‘no man’s land’ of the market between the commercial and luxury wine segments.

Background
The commercial and luxury segments of the wine industry are well established in markets in the US, UK, Europe and Australia and New Zealand. It is generally understood that commercial wines are made from poorer quality fruit, sourced and produced in large volumes and branded, promoted and priced at the lower end of the market – the objective characteristics (external attributes) are aligned with the subjective characteristics or intrinsic qualities (quality). Luxury wines are made of higher quality fruit and winemaking techniques which are supported by objective characteristics, including price, appropriate to the more expensive end of the retail spectrum. The space between commercial and luxury is called ‘masstige’; a term popularised by Silverstein and Fiske in 2003.

While the price-point delineation for ‘masstige’ between commercial and luxury is not easily defined within the wine industry (and varies from market to market), for the purposes of this research we will use the following categorization: commercial wines have a RRP of under $10 AUD; ‘masstige’ wines have a RRP of $10 - $25AUD; luxury wines have a RRP of greater than $25AUD. In business strategy terms the ‘masstige’ segment can be seen as a ‘no man’s land’ in the sense that competition is based on neither the cost leadership strategies of the commercial segment nor the higher willingness to pay associated with the clearly differentiated offerings of the luxury segment.

Prior research
This paper will build on prior research, particularly of Goldstein et.al. (2008), which found that “unless they are experts, individuals who are unaware of the price enjoy more expensive wines slightly less.” Goldstein’s research indicates there exists a positive relationship between knowledgeable consumers and price, and a weak negative correlation between unknowledgeable wine consumers and price between cheaper wines. Begalli and Capitello (2009) in their research on the Valpolicella variety define the subjective aspects of wine as follows: “this area includes the subjective spheres of pleasure, sensory/gustatory, paradigms perception (variety, origin, etc.), and their connections with the consumers’ behaviour and characteristics.” Additional research about the subjective and objective characteristics of wine by Lecocq and Visser (2006) has provided insights into the determination of wine prices through objective and sensory characteristics, using Bordeaux and Burgundy varieties. This research focuses on the Shiraz variety from the south and south-eastern parts of Australia.

Gergaud and Livat (2007), who researched how quality signals (RRP, brand, labelling etc) impact perceived quality with Bordeaux wines and European consumers, concluded that price is still the strongest indication of quality, and argue “Bordeaux as an appellation is much too large and complex to be considered as an accurate signal of quality.” They conclude by stating that the old world is losing market share ‘in favour of more accessible wines produced by new world winegrowers. Indeed, these growers have adopted a simpler brand-based strategy which is proving to be more efficient than the confusing terroir based strategy of old-world
producers.” Lewis and Zalan (2014), having conducted experiments in Australia testing the relationship between RRP and WTP, conclude that “consumer choice is determined by buyer surplus and the difference between the WTP and the price, and yet for non-expert wine drinkers WTP is itself strongly influenced by price. This relationship is at the heart of the competitive dynamics that exist in a market with multiple firms vying ‘for market share, and hence has strategic implications for the wine industry.” Additionally, the blind tasting experimental work of Almenberg et. al. (2014) in studying mass market beer producers suggests that “hide the label, hide the difference.” Their results suggest that “brand loyalty in this market is likely to be driven largely by marketing and packaging, and not by the underlying sensory properties of the competing products.” The key conclusion from this prior research is that objective characteristics of wine to a relatively unknowledgeable wine drinker can increase the WTP, more than the subjective characteristics of the wine itself.

Experimental Design
The experiment aim involves four sub-groups of a heterogeneous sample of wine tasters and five wines: three commercial products made from of E-grade fruit and two ‘masstige’ products made from B-Grade fruit from a range of Australian wine producers. All wines are South or South Eastern Australian wines of the Shiraz variety. The five wines are structured as follows:
Wine 1: A commercial wine made from D grade fruit
Wine 2: A commercial wine made from D grade fruit
Wine 3: A ‘masstige’ wine made from D grade fruit
Wine 4: A ‘masstige’ wine made from B grade fruit
Wine 5: A ‘masstige’ wine made from B grade fruit
The research design is structured to test whether an E grade wine can be positioned in the ‘masstige’ segment by the use of objective characteristics (brand - as presented by the packaging – promotion and RRP.
The experiment will be conducted at Melbourne Business School in January, 2016. A cross-section of students, staff and faculty from diverse demographic backgrounds will be involved as participants. A total 120 participants (across several tastings), will be split into four groups, to test the extent to which consumers’ WTP is influenced by: 1) RRP or 2) advertising and brand association – or a combination of the two.
The steps for each group in the experiment are as follows:
1) Group A:
a. Blind taste wine and indicate WTP and appreciation Rating each of the five wines.
b. Watch advertisements for the five wines.
c. Participants indicate WTP for a second time.
This aims to understand if advertising alone can shift the consumers’ WTP.

2) Group B:
a. Blind taste wine and indicate WTP and appreciation Rating each of the five wines.
b. RRP for each wine provided.
c. Participants indicate WTP for a second time.
This aims to understand if RRP alone can shift the consumers’ WTP.

3) Group C:
a. Blind taste wine and indicate WTP and appreciation Rating each of the five wines.
b. Watch advertisement
c. RRP for each wine provided.
d. Participants indicate WTP for a second time.
This aims to understand if a combination of advertising and RRP can shift the consumers’ WTP.

4) Group D:
a. Blind taste wine.
b. Watch advertisements for the different wines and RRP provided.
c. Indicate WTP and appreciation Rating each of the five wines.
This group will only provide one WTP to compare against the anchoring effects of Groups 1 - 3 associated with
nominating WTP at the time of blind tasting.
The participants will be asked for basic demographic information (age, gender, nationality), alongside collecting information on their wine purchasing and consumption habits (self-assessment of their wine knowledge; favourite brands; amount spent per month on wine, how much wine consumed in a month). This additional information will provide insights into whether there are differences between knowledgeable and unknowledgeable consumers and other confounding factors.

Implications
With the ‘masstige’ segment offering potentially lucrative returns, wine producers could increase consumers’ WTP for cheaper wine through increased advertising, brand awareness and higher RRP — silk purses can be created by the clever marketing of inferior grade wine.
Conversely, if the experiments show that consumers have a lower WTP for poorer quality (E grade) wine despite it positioned as ‘masstige’ then it would indicate wine quality plays a critical role, and in spite of products being ‘marketing led’ – a sow’s ear remains a sow’s ear.

Endnotes