

# Successful niche firms in times of financial crisis

## – An empirical study of the French wine industry

### Introduction

The financial crisis, starting in 1998, has led to an international recession and market turbulence. During recessions consumers set stricter priorities and reduce their spendings (Qulech and Jocz, 2009). This includes expenditures on wine acquisitions, and official statistics reveal that the international wine market suffered from an immediate decline in sales from 2008 (International Organization of Vine and Wine, 2009).

France has always been among the leading wine-producing countries in the world, and its production has traditionally been characterised by *terroir*, *appellation* and geographical identity, which to a large degree is represented by small and specialized actors. Also, in contrast to the large wine firms often offering more standardized and mass-produced products adapted to many geographic markets and cater to large supermarket chains on long-term contracts, the small and specialized actors are particularly vulnerable both in a market-perspective and in a financial perspective. These small and specialized actors, which frequently can be termed as niche firms (Dalgic and Leeuw, 1994; Toften and Hammervoll, 2010; 2011), contribute nevertheless significantly to the total industry as well as to the French gross domestic product. It is thus of great importance to both the French and the international wine industry to understand the marketing strategies and tactics these niche firms apply to master the financial crisis and even prosper under these conditions. Such knowledge, in terms of “best practise”, would provide a solid basis for offering guidelines for other small and specialized firms and for preparing for a similar crisis in the future. Although no two economic downturns are alike, it is important to identify niche firm strategies that propel firm performance under such conditions.

In order to contribute to the goal of obtaining this knowledge, the research questions of this study are the following:

1. Has the financial crisis resulted in adjustments of marketing efforts by niche firms in the French wine industry?
2. What changes in marketing efforts have occurred?
3. Have such changes influenced niche firm performance?

In the following this paper briefly presents relevant literature related to economic recessions, the marketing mix available for firms in general and the research hypotheses of this study. Then follow the methodology and the statistical analysis applied for this research, as well as the discussion of its results. This paper continues with the conclusion and implications of this research, followed by pinpointing some of its limitations and providing recommendations for further research.

### Overview of the French Wine Industry

The French wine industry represents a total amount of 95,400 wine growers. Twenty nine per cent of the wine growers work with a surface superior to 10 hectares (24.7 acres) and own 79

per cent of the total vineyard surface. Wine exports are one of the strong points of the French economy: the contribution of wine exports to the French trade balance regularly exceeds €6bn (Onivin *Viniflor*, 2009). However, the international wine market like other markets is currently suffering the fallout of the financial and economic crisis which started in 2008. Indeed, after twenty years of almost uninterrupted growth, the market recorded a strong downturn from the fourth quarter of 2008: three per cent at the world level and four per cent for European exports according to the official figures released by I.O.V. (International Organization of Vine and Wine). For French wine growers, this unfavourable trend adds to another already existing threat: the progression of New World wine exports. The fragmentation of the French winegrowing industry into a multitude of operators, both upstream (producers, chateaux, estates) and midstream (brokers and merchants) has made it even more vulnerable in the face of the New World's more financially powerful and concentrated wine industry actors.

The French market is presently characterized by a relative decrease in the production and in the consumption of still wine, above all concerning the volume. On the production side, the volume was around 450000 units in 2005 (unit = 1 million 9-liter cases), is presently at 439000 and is expected to drop to 438000 by the end of 2014. On the consumption side, the decrease in volume is illustrated by the following trend: 335000 (2005), 306000 (2012) and expected to be 294000 in 2014. In value, the consumption should move from € 13.8 billion (2005) to € 11.2 billion (2014). The Grand Cru segment represents only three per cent of the volume: even if this market seemed to be booming these last years, it does not represent the reality of the French market.

Around 20 per cent of the local production is presently exported. Traditionally, Europe was the prime destination. Since 2011 "the rest of the World" represents more. Most of the exports on the European markets are in decrease due to a more aggressive competition coming from outsiders like Australia, Argentina, Chile, and South Africa. This is particularly true for the Anglo-Saxon targets. Indeed, for the international market, brand orientation seems to be particularly important, this is not the French tradition, which is based more on *terroir*, *appellation*, and geographical identity. For what concerns the French domestic market, the presence of the foreign wines is weak: no more than six per cent market share.

The households in the age group "50/64" and those of the social category "with comfortable incomes" constitute the heart of customer buyers of wines in all categories in France today. Eighty two per cent of households "under 35" bought wines for home consumption during the year 2010, up three per cent over 2009. The amount purchased by these households is 14.3 litres per year (+3.9 per cent vs. 2009). "*Appellation d'origine*" wines weigh 61 per cent in these purchases, for wines without "geographic indication" (GI) 24 per cent, "*vins de pays*" nine per cent and six per cent foreign wines.

Nearly 87 per cent of households "35/49" bought wines for home consumption during the year 2010, - 0.3 per cent in comparison to 2009. The amount purchased by these households is up three per cent in comparison to 2009 to 30.7 litres per year. "*Appellation d'origine*" wines weigh 52 per cent in these purchases, on wines without GI 29 per cent, "*vins de pays*" 14 per cent and six per cent foreign wines.

The households in the age group "50/64" record a penetration rate of 93.2 per cent in 2010, up 0.1 per cent over 2009. At a 63 litre annual purchase the intensity of these households fell by 4.5 per cent in comparison to 2009. "*Appellation d'origine*" wines weigh 48 per cent in these purchases, wines without GI 27 per cent, wines of France to 17 per cent GI and eight per cent foreign wines.

Ninety two per cent of households in the age group "65 +" bought wines for home consumption in 2010, up 0.2 per cent over 2009. The amount purchased by these households is 51.9 litres annually, or 2.2 per cent less than in 2009. The weight of PDO wines in these purchases is 51 per cent, the wines without GI 26 per cent, "*vins de pays*" 17 per cent and six per cent foreign wines (Agrimer, 2012).

## **Marketing and Recessions**

Previous research has not specifically addressed how market downturns affect niche firms. In general, during market downturns many customers reduce their spendings (Quelch and Jocz, 2009), often accompanied by e.g. a move toward lower-priced products and a reduction or postponement of discretionary purchases (Kotler and Caslione, 2009). This will consequently reduce firms' current sales. Often, firms then introduce sharp cost cuts to compensate for this reduced sale (Quelch and Jocz, 2009), typically by reducing production and ordering fewer goods from their suppliers, cutting their rate of capital investments, reducing their marketing budgets substantially and postponing new product development and putting major new products on hold.

However, it is important that price cuts are guided by strategic considerations of what makes the firm successful in the long run (Kotler and Caslione, 2009). Because, in addition to develop survival strategies during the recession, an eventual economic recovery will bring new opportunities as well as risks and challenges for firms, which demand new strategies. Firms need to prepare for changing customer purchase behaviour and new competitive structures, as these will be affected during the economic downturn and never be quite the same again (Piercy *et al.*, 2010).

## **Main Marketing Tools Available for Firms**

As commonly known from most textbooks, the marketing strategy by firms mainly consists of selecting target markets and creating value for these customers through differentiation and positioning efforts, followed up by more detailed marketing programmes. The set of actual controllable tactical marketing tools in these marketing programmes are known as the marketing mix, or the four Ps, consisting of Product, Price, Promotion and Place (e.g. Kotler and Armstrong, 2010).

*Product* means the combination of goods and services that the firm offers to its target markets. This includes anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.

*Price* is the amount of money that customers must pay to obtain the product. In a broader perspective it can also be seen as the sum of values that customers exchange for the benefits of having or using the product or service.

*Place* includes firm activities that make the product available to target customers. This could include a set of interdependent organisations that help make a product or service available for use or consumption by the consumer or business user.

*Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. This includes advertising, sales promotion, personal selling, public relations and direct marketing.

An effective marketing programme blends all of the marketing mix elements into an integrated marketing programme designed to achieve the firm's marketing objectives by delivering value to its targeted customers. The marketing mix constitutes the firm's tactical tool kit for establishing strong positions in target markets, according to Kotler and Armstrong (2010).

While the four Ps were introduced in the 1950s, they remain important tools for marketers despite being criticised for focussing too little on what customers need (Schultz and Dev, 2012). However, beyond studies based on the PIMS Project in the 1970s and 80s, the influence of the four Ps on firm performance has only been investigated with regard to export performance (e.g. Cavusgil and Zou, 1994; Zou and Stan, 1998). A comprehensive review of previous studies on export performance reveals that all four Ps have no or positive effect (Zou and Stan, 1998). There are two notable observations; first, promotion has yielded mixed effects. For example, Cavusgil and Zou (1994) find that Promotion has a negative effect on export performance. Second, findings on Price remain weak and uncertain.

## **Research Hypotheses**

Based on the literature review the following hypotheses were developed. The financial crisis reduces or change demand for wine consumption and purchase, necessitating a product adaptation to fit the target markets' changing needs. Thus, we expect that:

**H<sub>1</sub> The financial crisis is positively associated with changes in firms' product offerings.**

The financial crisis is likely to affect customers' needs, including where, how much and how customers buy their products, and may thus require changes in the supply chain or distribution systems. We expect thus that:

**H<sub>2</sub> The financial crisis is positively associated with changes in firms' place offerings.**

The financial crisis is expected to reduce customer demand and create a pressure to lower the prices. Thus it is expected that:

**H<sub>3</sub> The financial crisis is positively associated with changes in firms' price offerings.**

Economic downturns and consequent cuts in firm costs typically affect firms' communication budgets negatively. We posit thus that:

**H<sub>4</sub> The financial crisis is positively associated with changes in firms' promotion offerings.**

Improvements of product offerings, which are based on customer needs, are supposed to improve firm performance. We expect thus that:

**H<sub>5</sub> Changes in the firm's product offerings are positively associated with performance.**

Improvement of value chains, or distribution, is one of the major factors available to firms to optimise the offerings to customers. We expect thus that:

**H<sub>6</sub> Changes in the firm's place offerings are positively associated with performance.**

Price is one of the most important elements determining a firm's market share and profitability. Further, price plays a key role in creating customer value and building customer relationships, and, historically, price has been the major factor affecting buyer choice (Kotler and Armstrong, 2010). We expect thus that:

**H<sub>7</sub> Changes in the firm price offerings are positively associated with performance.**

Adaptation of firms' communication efforts is believed to be important in firms' strategic processes in coping with the crisis (Piercy *et al.*, 2010). We thus expect that:

**H<sub>8</sub> Changes in the firm promotion offerings are positively associated with performance.**

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## **Methodology**

### ***Research Design and Data Collection***

In order to empirically investigate the research model and test the hypotheses a survey targeting firms in the wine industry was conducted. A structured questionnaire containing 77 questions served as the research instrument.

The population of interest was defined as participants at the Vinexpo 2011 (June 2011). Most of the main actors in the wine industry attend this exposition, making it a good opportunity to collect information at low cost. Firms were contacted, and 75 out of 85 agreed to participate in the study. Students conducted interviews, and respondents were contacted on stands, and managers or marketing personnel with good insights on wine marketing provided information.

For the purpose of this study, only data from niche firms targeting the high-end, non-sparkling wine was used. Of the 54 cases, there were three cases with missing information, and only merchants and manufacturers were included in the sample to be analysed. This means that 45 cases were used in the analysis.

### ***Items and Scales***

Items are provided in Table 1. The research model includes a mix of reflective and formative constructs. Items were developed to capture the perceived impact of the crises, the use of the 4P's, and marketing performance. Price was measured by a single-item. A single-item approach is convenient as the Price construct is concrete and one-dimensional in nature, and the sample size is rather limited (Fuchs and Diamantopoulos, 2009). The remaining items are measured on Likert-related scales, ranging from 1 (low) to 6 (high).

## Test of Model and Analysis

Partial least squares (PLS) was used to analyse the data set because several of the assumptions for analysing the relationships between latent factors using traditional structural equation modelling tools are not met in the data set. Several of the measurement scales are formative in nature and the sample size is too low for the relatively complex model (Chin and Newsted, 1999).

There were missing values in the data set but all measures exceeded the minimum of 30 observations needed for PLS analysis (Wixom and Watson, 2001). No items had more than five missing values. The missing values were replaced with the mean before the data were analysed, as suggested by Chin and Newsted (1999). Although this procedure weakens, at least to some extent, the power of the subsequent data analysis, it was not judged to threaten the ability to identify significant associations for these variables.

First, the measurement models are tested (see Tables 1 and 2). Reliability is tested by means of internal consistency (.7 generally required) and convergent validity by assessing the average variance extracted (AVE) (.5 or higher required). All measurement scales are found to have satisfactory internal consistency. Discriminant validity is demonstrated by diagonal AVE elements being larger than off-diagonal elements in the latent variable correlation matrix (see Table 2).

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The predictive ability of the independent variables is tested by means of path coefficients and  $R^2$  values, reported in Table 3.

The financial crises is strongly associated with Place, Price and Promotion (path coefficients between .36 and .51, significant at the  $p=.05$  level). Accordingly,  $H_1$  is rejected but  $H_2$ - $H_4$  cannot be rejected. While Product shows high association with marketing performance, Place, Price and Promotion have path coefficients lower than .2 (path coefficient are not significant at the  $p=.05$  level). Accordingly,  $H_5$  cannot be rejected. In sum the model accounts for a considerable portion of the variation in marketing performance (19 per cent).

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The findings indicate that the model accounts for a reasonable portion of variation in marketing performance as the reported R<sup>2</sup> values are reasonably high.

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## **Results and Discussion**

This study has focused on identifying associations between the financial crisis and niche firms marketing effort, and subsequently, associations between their marketing efforts and Performance.

Firstly, the financial crisis is significantly associated with changes in marketing efforts of niche firms in the French wine industry. More precisely, this study suggests that the financial crisis has led niche wine firms to increase their marketing efforts. We observed use of Price, Product, Place and Promotion in this study. Products are improved, Prices have been reduced, and niche firms intensified their efforts in Place and Promotion in an attempt to compensate for reduced demand. Decisions on such changes in the marketing mix are in accordance with literature on downturns and managerial actions. However, the literature suggests that most of the changes in the marketing mix are related to reducing costs of production and product development and marketing (promotion) (Quelch and Jocz, 2009), in order to compensate for reduced sales. In this study, though, we find no evidence that the wine forms reduce promotion costs or costs related to the product. Regarding the latter, it is, however, reasonable to believe that this at least partly is rooted in the nature of the business, in the respect that it is difficult to postpone the grape harvesting. Still, the study shows also an intensified effort by the wine producers to improve their product according to the customers' needs, in terms of flavours, grape selection, increased organic production and fine tuning of production portfolio. These findings support H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub> and H<sub>4</sub>. Also, this finding supports a previous study of the French wine industry concluding that wine firms are becoming more market oriented (Barbat and Mora, 2010).

Second, this study hypothesised that each of the different elements of the marketing mix positively affected the firm's Performance. The results, however, suggest that reductions in price have no effect on changes in Performance, and changes in distribution have very little, and probably negative, effect. Changes in promotion have negative effects on Performance, while changes in the product have substantial positive effect on Performance. In other words, our findings show that changes in distribution, price and promotion do not have positive

effects on Performance, while changes in product have positive effect. In turn, these findings support H<sub>5</sub>, while reject H<sub>6</sub>, H<sub>7</sub> and H<sub>8</sub>.

## **Conclusion**

### ***Main Conclusion***

The purpose of this study was to determine whether the financial crisis resulted in adjustments of marketing efforts, identify what changes in marketing efforts that have occurred, if any, and whether any such changes have influenced Performance of these niche firms in the French wine industry.

The results indicate that the financial crisis indeed has resulted in adjustments of niche firms' marketing efforts in the French wine industry. All four components of the marketing mix, product, place, price and promotion, have been resorted to as a consequence of the financial crises.

Further, weak and mixed effects of Promotion and Price on firm performance were identified. This is similar to general findings (not specific to niche firms) in previous research. One interesting finding in this study is that only changes in Product associated positively with firm performance. Place and Price show no association, while Promotion associates negatively with Performance.

This paper provides value to the literature by empirically testing the effects of the financial crisis on niche firms' marketing efforts, as well as testing these efforts impact on firm performance. Such attempts have previously been scarce, albeit clear recommendations on these topics are important in order to guide managers of niche firms in terms on crisis.

### ***Managerial Implications***

This research suggests that niche firms should concentrate on improving their product in times of crises. Such efforts contribute to developing a highly differentiated product, and this helps to prevent competitors for entering their market niche. On the other hand, such product orientation makes firms more vulnerable to the 'better mousetrap' fallacy, or to develop 'marketing myopia'. However, in the wine industry such problems may not be as important as for highly complex and technical products in industries characterised with rapid and huge disruptions.

In addition, there is no need to focus heavily on increasing promotion in times of financial crises. This research indicates, rather on the contrary, that such increased promotion could affect performance negatively.

### ***Research Limitations***

First, the study examined only a limited number of firms, and in a single industry. This limited data means that generalising the findings to a larger population is difficult. It is also acknowledged that weaknesses are associated with cross-sectional research, including the research presented here; a longitudinal study would have produced more reliable data.

Finally, the items used (operationalizations) are new and have not previously been validated in previous studies. In particular, this study relied on perceptual measures of firm performance.

### ***Further research***

All four components of the marketing mix, product, place, price and promotion, are rarely considered simultaneously in research on firm performance, except for export performance. Since these are key marketing strategy tools, further investigations represent an opportunity for further inquiry.

Product development and adaptation to satisfy customers' needs and preferences were identified as the key success factors for niche firms in times of crises in this study. Improved Product requires spending of time and resources, and future studies can more closely study the relationship between the costs and benefits from improving the Product.

Also, knowledge on the effect of Price remains poorly understood. Research findings are mostly weak and uncertain. Compared to the other three Ps, Price directly affects firm revenues, so further research is needed to better understand the effect of Price on firm performance.

Further research should be conducted in other industries, in other geographical markets and for other niche products. Hopefully, the definition of niche marketing suggested in this paper can inspire researchers to explicitly define and identify niche firms in their further studies.

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Figure 1. Conceptual Model

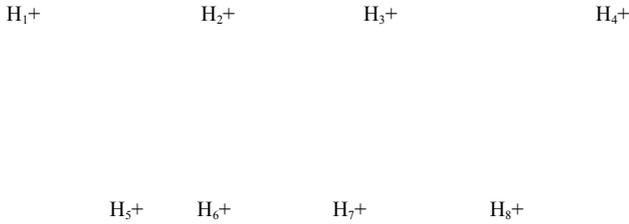


Figure 2 Test Results in Model

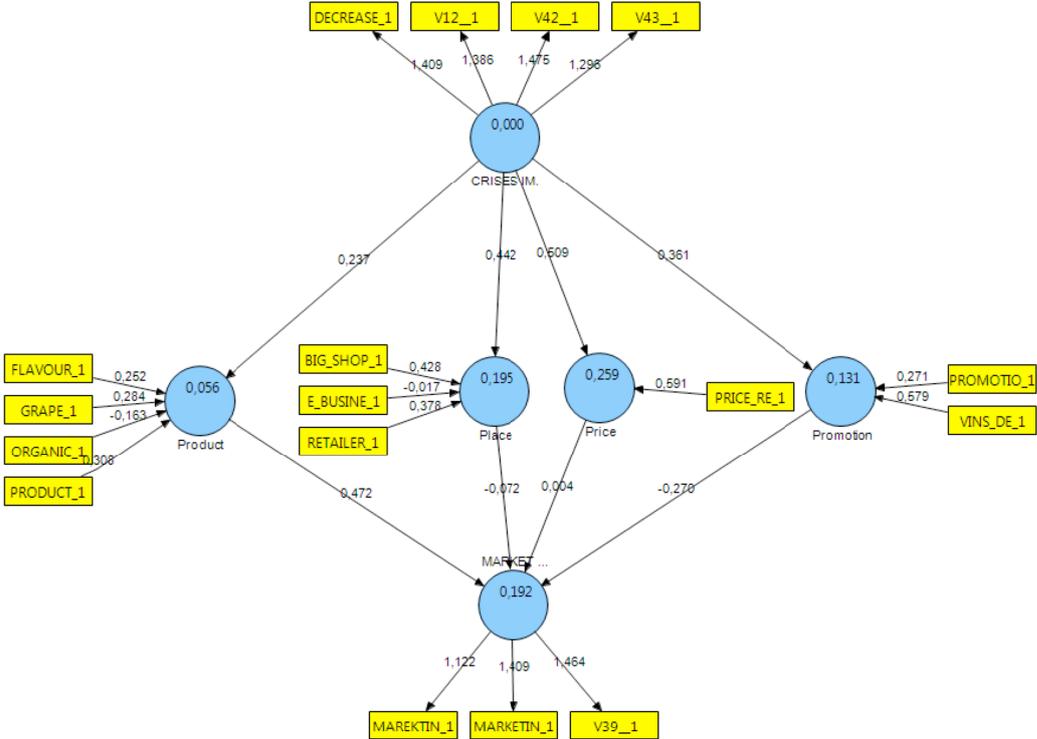


Figure 3 Test Results with T-values (bootstrapping)

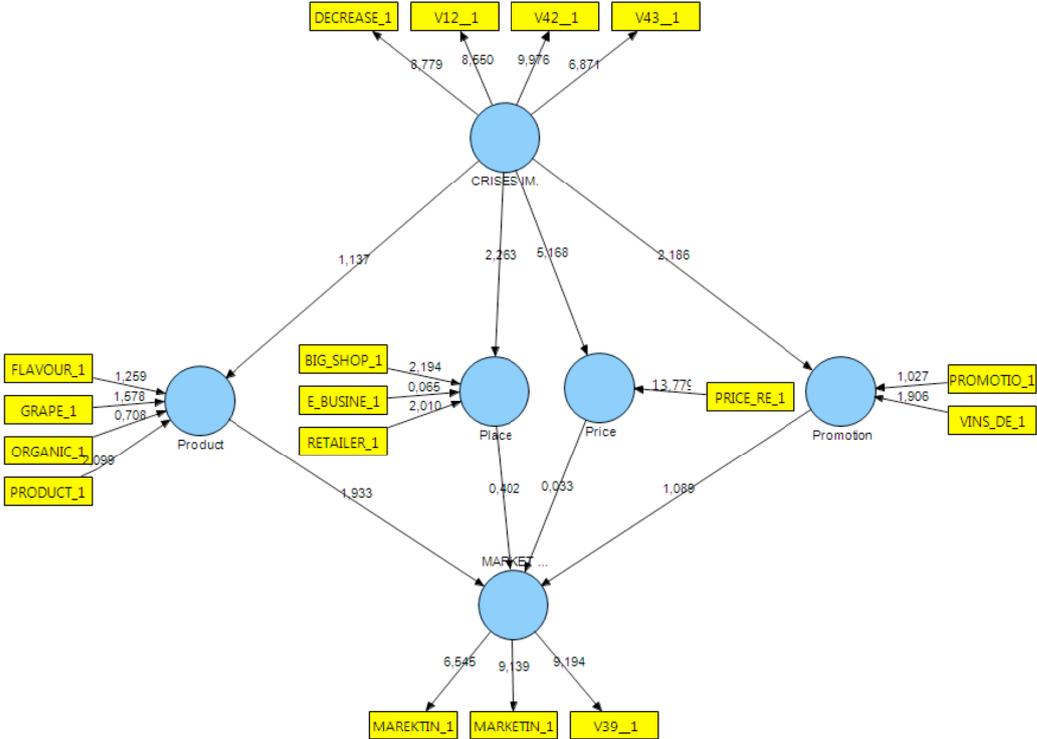


Table 1

<b>Perceived impact of 2008 crises</b> (Composite reliability = .89, Chronbachs alpha = .83) (AVE = .66)		<b>Mean</b>	<b>Std</b>	<b>Load</b>
Decrease	For our firm, we observe a decrease of the activity since the Autumn 2008	2.8	1.7	.81
V12_	For our firm, we observe a decrease of profitability since the Autumn 2008	3.1	1.7	.83
V42_	The 2008 crisis threatens the growth of our activity	3.5	1.8	.84
V43_	The 2008 crisis threatens our firm's survival	2.8	1.7	.77
<b>Product</b>				
FLAVOUR	We modify the flavour of wine (concentration, wood, tonicity, fruit presence..)	2.7	1.7	
GRAPE	We push more the concept of grape (Merlot, Sauvignon, Chardonnay, Pinot Noir, Malbec, Carmenere)	3.0	1.8	
ORGANIC	We develop organic wines or wines produced by a sustainable agriculture	3.7	2.0	
PRODUCT	We modify the firm's product portfolio to simplify it and make it more "easy to read"	3.7	1.6	
<b>Place</b>				
BIG_SHOP	We focus our sales more on Big Shops (Wal Mart, Tesco, Corte Ingles ...)	2.8	1.7	
E_BUSINE	We focus more on E-business to sell our wines		3.4	1.5
RETAILER	We make an effort on traditional wine retailers (specialized)	3.8	1.5	
<b>Price</b>				
PRICE_RE	We reduce the price of our wines	2.6	1.7	
<b>Promotion</b>				
PROMOTIO	We conduct promotion campaigns	4.1	1.6	
VINS_DE_	We promote the idea of "Vins de Pays"	2.0	1.4	
<b>Performance</b> (Composite reliability = .95, Chronbachs alpha = .92) (AVE = .86)				
MAREKTIN	Generally speaking, our marketing decisions give us a competitive advantage	4.3	1.4	.85
MARKETIN	Marketing is essential to achieve our commercial objectives	4.7	1.5	.96
V39_	Marketing is essential for the success of our firm	4.7	1.6	.97

TABLE 2 The latent variable correlation matrix: Discriminant validity

	<b>Crises impact</b>	<b>Performance</b>	<b>Place</b>	<b>Price</b>	<b>Product</b>	<b>Promotion</b>
<b>Crises impact</b>	.66					
<b>Performance</b>	-.13	.86				
<b>Place</b>	.44	-.08	-			
<b>Price</b>	.51	-.01	.23	-		
<b>Product</b>	.24	.34	.23	.30	-	
<b>Promotion</b>	.36	-.09	.42	.53	.43	-

