

The financial crisis and the wine industry; the performance of niche firms versus mass market firms

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ABSTRACT

Purpose - To study how niche firms and mass market firms in the French wine industry have performed relative to each other during the financial crisis.

Methodology – A longitudinal study, by obtaining financial data from two groups for three different years.

Findings – Following an immediate drop for several financial indicators after the outburst of the crisis, both groups seem to have recovered quickly. However, nuances between the groups are detected.

Implications – Niche firms should develop strong customer relationships and to be both product and customer oriented. Mass market firms could focus on grape blending, expertise in exports and end markets and global wine brands.

Key words – Niche; Mass market; Wine; France; Strategy; Marketing; Performance

Classification – Research paper

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INTRODUCTION

France has always been among the leading wine-producing countries in the world, and the French wine industry represents a total amount of 95,400 wine growers. 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, has been 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).

We know that firms in the French wine industry apply different marketing strategies for their business operations. Some firms, particular large ones, often prefer to offer standardized and mass-produced products adapted to many geographic markets and to cater to large supermarket chains. Others prefer to specialize and adapt their production to the needs of narrow markets, and emphasising the importance of *terroir*, *appellation* and geographical identity to enhance product quality. This latter strategy, typically characterized by specialization, narrow markets and long-term relationships, is often termed niche strategy (Dalgic and Leeuw, 1994; Toften and Hammervoll, 2010; 2011). However, which of these two main strategies have resulted in the better performance data during the time of the financial crisis? It would be beneficial to both the French and the international wine industry to understand the marketing strategies that successful firms apply to master the financial crisis and even prosper under these conditions. Such knowledge could form the basis for offering guidelines for both mass market firms as well as small and specialized firms and for preparing for a similar crisis in the future. The objective of this paper is thus to study how niche firms and mass market firms in the French wine industry have performed relative to each other during the financial crisis.

In the remaining sections this paper briefly offers a description of niche marketing and the choice of setting and industry, followed by the methodology, which presents background about the population and sample, variables used for this study and the method of data collection. Then the statistical analysis applied for this research is presented, as well as the discussion of its results. This paper then continues with the conclusion and implications of this research, followed by pinpointing some of its limitations and providing recommendations for future research.

NICHE MARKETING

Niche marketing is a popular concept among academics and practitioners and is commonly accepted as an important tool in the marketer's toolbox today. The review article by Toften and Hammervoll (2013) revealed that niche marketing is beneficial for some firms in terms of increased profits, higher prices, higher growth, increased market shares and increased competitiveness. Further, niche marketing is applied to different situations, such as a variety of industries and firms sizes, domestic and international markets and new and established markets. Also, successful niche marketing appear to require the use of specialization, relationship marketing, internal dynamic capabilities and effective protective barriers.

In this paper we concur with Toften and Hammervoll (2013) regarding their definition of niche marketing and their view that that niche marketing is an applied strategy similar to segmenting, which can be used at both the competitive strategy level and the marketing decision-making level:

“The process of carving out, protecting and offering a valued product to a narrow part of a market that displays differentiated needs”.

THE WINE MERCHANT SYSTEM OF “LA PLACE DE BORDEAUX”

Initially it is necessary to understand the very particular behaviour of *La Place de Bordeaux*, that is to say, the operation of the market of *Grands Crus*. Two major categories of players drive this market. First, the *Châteaux*, most of which are member of the *Union des Grands Crus* (about 140 *Châteaux*) in four *terroirs* (Saint-Emilion, Medoc, Graves, Pessac-Léognan, Sauternes) and focusing on the high quality market. Traditionally, *Châteaux* do not market their wines and they entrust the mission to traders, most of them located in Bordeaux. Marketing then proceeds in this manner: in the spring following the harvest, a marketing campaign called *en primeur* sets the price of wine and the *allocation*, that is to say the number of cases each *Château* offers each merchant. If the merchant accepts the offer, the merchant pays for the order and must wait for the aging of wines, which typically lasts 18 months, before having it delivered and, in turn, markets the stock for buyers which frequently are located abroad. This system provides a “win-win” situation, providing cash to the *Château* and a price guarantee to the merchant.

The second category consists of those who generally focus on wines with a modest quality and apply a more “mass market” orientation. This category typically selects the wines, sometimes package and bottle the bulk, promotes and sells the production at current market prices.

There are thus two main categories of merchants on the *La Place de Bordeaux*: those who are part of the *allocation* system and generate a significant part of their business on more speculative sales based on expectations on future development of their wines, and those who produce and sell their product at the spot market, often targeting the quality level required by large and uniform markets. In this paper the former category is termed *niche firms* while the latter category is termed *mass market firms*.

METHODOLOGY

Research Design and Data Collection

Natural experiments investigate the effects of treatments that are not manipulative by the researchers, such as for example government interventions, or policy changes (Shadish et al., 2002). Over the last decade, the natural experimental approach has gained considerable attention in economics, although it is still relatively rare in marketing (Meyer 1995; Moorman 1996). One major advantage of a natural experiment is that it can provide higher validity on causal inferences than can purely statistical adjustments (Shadish et al., 2002).

A control group, that allows us to control for the time trend or other threats to internal validity, is not possible in our case, since all firms are faced with the same financial crisis

(global phenomenon). Therefore, it is difficult to assess the consequences of the financial crisis per se. However, by comparing niche firms to other firms in the wine industry, the effects of the financial crisis can be assessed across the two groups of firms. This study is concerned with two time periods; namely before and after 2008, when the financial crisis hit, and may thus be described as a longitudinal study.

The data is collected from two sources: first, the *Union des Maisons de Négoce de Bordeaux*, which includes most of the merchants of Bordeaux vineyards. This organization publishes an annual directory that separates its members into two groups: those engaged in a speculative activity, mainly in connection with the *Châteaux Grand Crus* (termed niche firms), and those who have a model based on non-speculative purchase of wine directed at a wider market (termed mass market firms).

Then, for each of the companies of our sample, we collected financial data from the financial database *Dun and Bradstreet*. In order to observe the impact of the financial crisis for these two groups, we collected data for one year prior to the financial crisis (2007) and for two different years after the start of the financial crisis (2009 and 2011), for identifying possible near- as well as longer-term effects.

Variables

The following variables were selected in order to provide a broad picture of the financial performance of the two groups:

1. Turnover	5. Shareholder equity
2. Number of employees	6. Ratio of net profit/shareholder equity
3. Value added	7. The export rate in per cent
4. Net result	8. The ratio of value added/turnover

Turnover and number of employees give a first picture of the size of the company. Furthermore, by observing their evolution over the three years, we can deduce the resistance to the crisis in terms of groups. Value added, net result and shareholder equity are included to provide broad performance data. Then the rate of net profit/shareholder equity of the company provides a conventionally measure of the profitability of the company. Moreover, the export rate seems essential to study because the niche market of *Grands Crus* is mainly located outside France. Finally, to better measure the contribution of the company in its sector and its robustness over the longer term, the ratio of value added/turnover is included. We have not included treasury or cash ratio, nor inventory turnover, since the two groups are not comparable on these criteria due to their different business models.

Sample Description

Table 1. Descriptive Statistics; 2007

	Niche firms			Mass market firms		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
Turnover	41	34703998.85	74906785.45	16	67475910.81	118739913.11
Number of employees	29	72.83	154.86	13	91.23	138.41
Value added	41	5678499.85	14367716.01	16	6751036.63	8904576.13
Net result	41	692870.39	3035049.60	16	1162609.25	2379350.60

Shareholder equity	41	4173551.32	12721420.66	16	3838360.87	6446878.23
Net profit/shareholder equity	41	1.44	4.20	16	2.37	3.35
Export rate %	41	49.50	30.73	16	39.93	34.08
Value added/turnover	41	16.80		16	10.01	

Table 2. Descriptive Statistics; 2009

	Niche firms			Mass market firms		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
Turnover	39	38176275.97	100528303.91	16	74464517.75	145489369.45
Number of employees	24	89.17	225.49	11	104.73	142.91
Value added	39	5997281.77	17662139.97	16	6986711.13	9426935.79
Net result	39	1045579.36	3986481.39	16	1589080.88	3280915.73
Shareholder equity	39	4373354.38	12891427.34	16	3838360.87	6446878.23
Net profit/shareholder equity	39	.32	5.58	16	2.47	4.25
Export rate %	39	52.19	27.77	16	43.44	35.73
Value added/turnover	39	17.53		16	9.38	

Table 3. Descriptive Statistics; 2011

	Niche firms			Mass market firms		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
Turnover	41	44930417.73	112132802.09	13	95470743.15	184829377.41
Number of employees	33	70.42	195.05	10	110.30	156.48
Value added	41	6944052.39	18348278.22	13	8491715.38	10504638.51
Net result	41	1351964.44	3810868.43	13	1783979.08	3142355.11
Shareholder equity	41	4391029.54	12911538.46	13	2814324.15	3660538.57
Net profit/shareholder equity	41	1.49	4.62	13	2.91	3.27
Export rate %	40	52.38	30.32	13	47.75	35.09
Value added/turnover	41	15.73		13	8.90	

ANALYSIS AND RESULTS

Statistical Test

The Kruskal-Wallis (Kruskal and Wallis, 1952) is a nonparametric statistical test that assesses the differences for some non-normally distributed continuous variables among groups. In contrast, the one-way analysis of variance (ANOVA), which is a parametric test, may be used for a normally distributed continuous variable, if the groups are of similar size. Thus, the Kruskal-Wallis is the nonparametric version of the one-way ANOVA, and is used here because the numbers of observations in the two groups are not of similar magnitude (around 40 observations for niche firms and less than half of that for mass market firms).

Test Results

Table 4. Test Statistics^a for 2007-2009

	Turnover	Valueadd	NetRes	Sharehol	Staff	NetProfPro	ExpRate
Chi-Square	.137	3.786	2.143	.795	1.502	2.782	.057
Df	1	1	1	1	1	1	1
Asymp. Sig.	.711	.052	.143	.373	.220	.095	.812

^a. Kruskal Wallis Test

There was a significant difference in the change in value added ($p < .01$) and the change in net profits ($p < .01$) from 2007 to 2009 for the two groups of firms, as shown in Table 4. For niche firms, value added increased on the average from 5.7 million (2007) to 6.0 million (2009). For mass market firms, the increase was from 6.8 million to 7.0 million. The relative increase in value added is therefore stronger for niche firms.

For niche firms, the net profit was, on the average 1.4% in 2007, but only .3% in 2009. For mass market firms, net profits slightly increased, from 2.4% (2007) to 2.5% (2009). The development in net profit is therefore significantly different for the two groups of firms.

Table 5. Test Statistics^a for 2007-2011

	Turnover	Valueadd	NetRes	Sharehol	Staff	NetProfPro	ExpRate
Chi-Square	1.756	.030	2.211	.725	.613	3.733	2.125
Df	1	1	1	1	1	1	1
Asymp. Sig.	.185	.863	.137	.395	.434	.053	.145

^a. Kruskal Wallis Test

There was a significant difference in the change in net profits ($p < .01$) from 2007 to 2011 for the two groups of firms, as shown in Table 5. For niche firms, the net profit was, on the average 1.4% in 2007, and 1.5% in 2011. Net profits increased for mass market firms, from 2.4% (2007) to 2.9% (2011). The development in net profit is therefore significantly different for the two groups of firms.

Control-variables

In an attempt to address alternative explanations for observed change in the two groups, we tested whether the two groups differed in any way with regard to important firm characteristics, in terms of turnover, value added, net result, shareholder equity, number of employees, net profit and export rate.

Table 6. Test Statistics^a for 2007

	Turnover	Value added	Net result	Shareholder equity	Staff	Net profit	Export rate %
Chi-Square	1.061	.954	1.333	.284	.409	.837	.921
Df	1	1	1	1	1	1	1
Asymp. Sig.	.303	.329	.248	.594	.522	.360	.337

^a. Kruskal Wallis Test

Table 7. Test Statistics^a for 2009

	Turnover	Value added	Net result	Shareholder equity	Staff	Net profit	Export rate %
Chi-Square	.859	1.731	2.540	.042	1.777	1.195	.578
Df	1	1	1	1	1	1	1
Asymp. Sig.	.354	.188	.111	.838	.183	.274	.447

^a. Kruskal Wallis Test

Table 8. Test Statistics^a for 2011

	Turnover	Value added	Net result	Shareholder equity	Staff	Net profit	Export rate %
Chi-Square	.885	1.261	.332	.266	2.368	.671	.096
df	1	1	1	1	1	1	1
Asymp. Sig.	.347	.261	.564	.606	.124	.413	.756

^a. Kruskal Wallis Test

Neither of these tests shows significant differences between niche and mass market firms for either of these years. This supports the view that the test results in this paper are based on the choice of marketing strategies, rather than on these selected variables.

DISCUSSION

The purpose of this this paper was to identify which of the two strategies of niche versus mass market strategies has resulted in the better performance data during the time of the financial crisis. The results show that most of the selected financial performance measures did not show statistical significant differences between niche and mass market firms. Resistance to the crisis seems thus to characterize the two groups of firms similarly both in terms of growth of sales, value of the net profit or export rates. Establishing the reason for this overall result is beyond the scope of this current study, but it is reasonable to expect that both the niche and the mass market strategies, by and large, have proved to be two alternative and viable tracks for combating the financial crisis.

However, for the period from 2007 to 2009 there are two significant differences between these groups ($p < .01$). First, the value added for niche firms increased on average from 5.7 million (2007) to 6.0 million Euros (2009), while the increase for mass market firms was from 6.8 million to 7.0 million Euros. The relative increase in value added is thus somewhat stronger for niche firms. One possible explanation for this high level of valued added is provided by the prices on the *Grands Crus* in 2008 and 2009, where these years were marked by high quality paired with high prices.

Second, net profit/shareholder equity for niche firms was on the average 1.4% in 2007, but only 0.3% in 2009. For mass market firms, net profits/shareholder equity slightly increased, from 2.4% (2007) to 2.5% (2009). This development in net profit/shareholder equity is significantly different for the two groups of firms ($p < .01$), indicating that niche firms suffered relatively more than mass market firms on the short term. Business investments and a stronger

presence of the sales teams in Asia to raise awareness of the world of Grand Crus in this new market may explain the lower profitability of niche businesses.

For the longer time period, from 2007 to 2011, only the change in net profits/shareholder equity ($p < .01$) shows a statistical significant difference between these two groups. For niche firms the net profit/shareholder equity was, on the average, 1.4% in 2007 and 1.5% in 2011, while net profits increased for mass market firms from 2.4% to 2.9% during the same period. This implies that the niche firms, on the average, have managed to recover from the results in 2009 and to about the same level as in 2007, but they still show significant lower results compared to mass market firms, as they also did before the crisis. Because of the speculation that is exerted on the Grand crus, it is difficult to anticipate the level of margins of this business niche. Indeed, similar internal efforts can lead to widely varying financial results, from one year to another, and this may be the case here.

Further, when scrutinizing the results more closely one can identify that, on the one hand, the rate of net profit/shareholder equity appears higher among mass market firms, with around 2% instead of 1%. One possible explanation for the lower financial return for niche companies could be excessive funding of the niche firms, compared to the mass market firms.

On the other hand, the rate value added/turnover seems to be highest for niche firms (focusing on the *Grand Crus*): on average around 16% instead of 9%. This ratio enforces the key role of this type of actor in the industry and its robustness in maintaining its position.

Beyond these observations it is relevant to pinpoint that differences in performance could be explained by the choice of marketing and business model. The “mass market” model is often an industrial type, with an important immobilized asset and large marketing budgets. The niche model here is more based on the network of relationships maintained by the traders of the *Chateaux*.

CONCLUSIONS

Main Conclusion

The objective of this paper was to study how niche firms and mass market firms in the French wine industry have performed relative to each other during and after the start of the financial crisis. In general, our findings imply that on most financial performance measures these two very different marketing strategies of niche versus mass market firms both performed rather well. There was, though, an immediate drop in some measures in 2009, just after the start of the crisis, but these had improved by 2011, suggesting that the financial crisis only had temporary effects. In other words, resistance to the crisis seems to characterize the two groups of firms rather similarly in terms of growth of sales, value of the net profit and export rates.

However, for the period from 2007 to 2009 there two significant differences between these groups were identified. First, the value added for niche firms increased on average slightly more than mass market firms during this first part of the crisis. Second, net profit for niche

firms dropped from 2007 to 2009, while mass market firms on the contrary managed to increase this margin – in this first phase of the crisis.

In the longer period, from 2007 to 2011, there was only one financial performance measure which remained statistically significantly different between the two groups; change in net profits. Although also the niche firms had regained the margin from 2007, the mass market firms had increased even more.

The overall conclusion is that, despite a few nuances, it is a draw between niche and mass market firms in respect to handling the financial crisis – both groups of firms have managed the financial crisis rather well, despite pursuing quite different marketing strategies.

Managerial Implications

A paradox can occur: during the studied period we indeed observed both a global economic crisis and, for the high quality wines, a speculation that maintained or increased the price levels. In this context and given the rate of value added, niche businesses are doing well. Can we then conclude that “the crisis has been profitable for rich people and businesses focused on the elite markets have an incentive to maintain their position during such times?” The answer must be more nuanced. Here, the popularity and, hence, demand of such products is to a large degree regionalized to Asia in general and to China in particular. There is, however, no reason to expect that a future global financial crisis would face a similar situation in terms of demand. Some even expect a slowdown in Chinese demand for French wine for the future. Again, the highly speculative nature of these markets do not allow to draw stable conclusions for the future.

Considering the companies specialized in the trading of *Grand Crus* as an illustration of niche strategy, we assume that this is a true specialization or particular expertise. Here, this is not a specialization in technology or due to accumulation of capital. It is the ability of a firm to be present on a very narrow market: it represents only 5% of the volume sold by the Bordeaux producers of Bordeaux wines. Therefore, the main key to success to enter or remain in this field consists of developing a network of relationships that the trader will engage in negotiations, especially during *en primeurs* campaigns and during the *allocation* negotiation. More than a financial structure, or even a marketing orientation, the competitive advantage is based on the address book both locally and internationally at a time when most of the *Grand Crus* are ultimately purchased by very distant customers: in Asia and the United States primarily. In other words; it is essential to have strong customer relationships for capturing the benefits of niche marketing, and is necessary to be both product oriented, in order to create top quality products, and to be customer oriented, in order to develop customer relationships and understand customers’ needs.

For firms in the mass market, preparations for a future crisis could consist of fortifying their position now. Faced with competition from New World countries French merchants could focus on the following; to increase awareness and understanding of the specifics of blending grape varieties, to develop more readable identity based on land productions, to have a greater expertise in exports and to have greater proximity with the end market. Finally, French

merchants could develop some global wine brands based on its' own qualities and carried by strong marketing channels intermediaries and powerful groups.

Study Limitations and Further Research

First, this study examined a limited number of firms, in a limited geographic area and in a single industry. This limited data means that generalising the findings to a larger population is difficult, even though there still are lessons here to be learnt for firms preparing for the next crisis. Second, although the grouping of firms to either mass market or niche firms are conducted in an acceptable manner, this may still be more nuanced and based more comprehensively on the definition of niche marketing as presented in this paper.

In order to pinpointing avenues for future research possibilities it feels natural to suggest including more financial performance data from other wine firms located in other French regions or abroad. Second, it is possible to include other industries. Another French niche which often is associated with that of the *Grand Crus* is the *Haute Couture*. This sector is also dedicated to a narrow and international market. It would be interesting to compare the financial data of these two business sectors to see whether their resistance were similar or not during the crisis, and secondly, to add similar financial performance data in order to strengthen external validity of this present study.

A third avenue for future research could be to strengthen theory building of niche marketing and its applications. By conducting a larger qualitative study of wine firms within the niche theory setting this could contribute to enhance niche theory in terms of definitions and its operationalizations.

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