

Niche marketing and the case of Bordeaux wine

By

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Niche marketing and the case of Bordeaux wine

A conceptual paper

Abstract

Purpose - to identify niche markets or niche products, and discuss whether these markets or products can be termed as niche in terms of characteristics and definitions as suggested in the literature.

Methodology – A case study design of the Bordeaux wine market, combining several methods for data collection, such as observations, secondary information, and interviews.

Findings – It is expected to determine whether it is appropriate to characterize the Bordeaux *Châteaux Grand Crus* producers as niche firms or not. Further, a precise description of the Bordeaux producers and markets will be offered, along with product descriptions in broad terms and the applied niche strategies.

Implications – Theoretically, the findings may impact on the ability to develop a more precise definition of niche marketing and its content, and possibly also to determine whether a PGI-certification or similar certification schemes could work as indicators for niche markets. Practically, this research would provide a better foundation for offering clear and precise guidance to practitioners interested in pursuing niche marketing.

Key words – France; Market; Performance; Châteaux; Grand Crus; *Strategy*

Classification – Conceptual research paper

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Introduction

Niche marketing has been endorsed as an effective marketing strategy (e.g. Dalgic and Leeuw, 1994; Stanton *et al.*, 1991; Philips and Peterson, 2001), provided that the firms are willing to and capable of offering specialized products to narrow markets. Successful implementation of niche marketing has numerous benefits, as revealed by Toften and Hammervoll (2013), including increased profits and competitiveness and high growth and markets shares.

However, in spite of its popularity there exists no widely accepted definition of niche marketing, only a set of common characteristics and a number of different suggestions and applications (Dalgic and Leeuw, 1994). In other words, there is no certain way of establishing whether these reported research findings are comparable to each other. This lack of a recognized conceptual definition of niche marketing hampers further operationalisation and measurement of the concept and subsequently, soundly based empirical research, which again limits the ability to provide precise research-based recommendations to practitioners.

To overcome these problems and potentially make effective use of niche marketing as a marketing strategy, the literature needs to advance toward a common definition, or at least a common understanding of what constitutes niche marketing. This necessitates more empirical research.

One contribution in this respect is to identify niche markets or niche products, and discuss whether these markets or products can be termed as niche in terms of characteristics and definitions suggested in the literature. One relevant research opportunity is the French wine industry, and more specifically the producers of Bordeaux wines. France has always been among the leading wine-producing countries in the world, and we know that firms in the French wine industry apply different marketing strategies for their business operations. Some firms, particularly large ones, often prefer to offer standardized and mass-produced products adapted to many geographic markets and to cater to large supermarket chains, and may be termed mass-market firms. Others, such as the Bordeaux *Châteaux Grand Crus* producers, are known 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 marketing strategy strongly resembles the characteristics of niche marketing.

The purpose of this conceptual paper is to describe a planned case study suitable for examining whether the Bordeaux *Châteaux Grand Crus* producers actually can be defined as niche producers, and to identify and compare niche marketing strategies to mass-marketing strategies, according to the characteristics and definitions offered in the extant literature.

In the remaining sections of this paper, a brief presentation and discussion of various definitions and characteristics of niche marketing is first offered. Then the research methodology is presented, including the research design, data analysis, main variables, level

of analysis, and case description. This paper finally concludes with suggesting possible outcomes, as well as outlining possible managerial implications and future research possibilities.

Conceptual Framework

To the best knowledge of the authors, no widely recognized definition of niche marketing exists. Although the notion of niche marketing is frequently used both in academic papers and in the more popular press most of these articles use the term 'niche marketing' without further delineation, or they briefly refer to the term before moving on to other issues (Toften and Hammervoll, 2013). There is therefore a number of different definitions available in the literature, and these share some similarities, as illustrated by these examples from frequently cited academic articles:

A method to meet customer needs through tailoring goods and services for small markets (Stanton *et al.*, 1991).

Positioning into small, profitable and homogeneous market segments which have been ignored or neglected by others (Dalgic and Leeuw, 1994, p. 42).

A marketing strategy that uses product differentiation to appeal to a focused group of customers (Philips and Peterson, 2001, p.1).

Focusing on customers with a distinct set of needs who will pay a premium to the firm that best satisfies their needs, where the niche is not likely to attract other competitors, where the firm gains certain economies through specialisation, and where the niche firm preferably has sufficient size, profit and growth potential (Kotler, 2003).

The process of carving out a small part of the market (Shani and Chalasani, 1993, p. 58).

Recently, Toften and Hammervoll (2013, p. 280) suggested a new definition:

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

Other definitions of niche marketing are for example:

The finding and exploitation of a relatively small and specialist, yet profitable, market (Wiktionary.org).

Concentrating all marketing efforts on a small but specific and well defined segment of the population. Niches do not 'exist' but are 'created' by identifying needs, wants, and requirements that are being addressed poorly or not at all by other firms, and developing and delivering goods or services to satisfy them. As a strategy, niche marketing is aimed at being a big fish in a small pond instead of being a small fish in a big pond. Also called micromarketing (BusinessDictionary.com).

A niche market is a focused, targetable portion of a market. Niche marketing is addressing a need for a product or service that is not being addressed by mainstream providers (small business: Canada).

In their review article, Dalgic and Leeuw (1994, p. 40) also offered a general definition of niche based on Webster's Dictionary (1992):

A recessed space or hollow; specifically a recess in a wall for a statue or the like, any position specifically adapted to its occupant.

It should be noted that niche marketing is related to concepts in other literatures, such as strategic management. In particular, Porter's (1980; 1985) focus strategy, one of three generic strategies, is generally described as a concentrated attention on a narrow piece of the total market. Alternatively, it can be described as appealing to the unique preferences and needs of a narrow, well-defined group of buyers better than potential rivals (e.g. Thompson *et al.*, 2010).

Following Parrish *et al.* (2006), we consider niche marketing as a complex concept that includes both a product, a market and a strategy. Accordingly, an overview of components of applied definitions can be summarized as in Table 1:

Table 1

Market	Product	Strategy
Small (Dalgic and Leeuw, 1994; Stanton <i>et al.</i> , 1991)	Differentiated (Phillips and Peterson, 2001)	Meet customer needs (Stanton <i>et al.</i> , 1991)
Profitable (Dalgic and Leeuw, 1994; Kotler, 1991)	Valued (Toften and Hammervoll, 2013)	Tailoring product (Stanton <i>et al.</i> , 1991)
Homogeneous (Dalgic and Leeuw, (1994)		Differentiation (Phillips and Peterson, 2001)
Ignored/neglected Dalgic and Leeuw, 1994		Positioning (Dalgic and Leeuw, 1994)
Distinct set of needs (Kotler, 1991)		Appeal to (Philips and Peterson, 2001)
Focused (Philips and Peterson, 2001)		Treasuring firm reputation (Dalgic and Leeuw, 1994)
Premium price (Dalgic and Leeuw, 1994; Kotler, 1991)		Specialization (Dalgic, 2006; Kotler, 1991; Toften and Hammervoll, 2010a)
No/few competitors (Kotler, 1991)		Word-of Mouth communication (Dalgic and Leeuw, 1994)
Sufficient size (Kotler, 1991)		Focus (Kotler, 1991)
Growth potential (Kotler, 1991)		Carving out (Shani and Chalasani; Toften and Hammervoll, 2013)
Small part (Shani and Chalasani)		Protecting (Toften and Hammervoll, 2013)
Narrow (Porter, 1980; 1985; Toften and Hammervoll, 2013)		Pursuing relationship marketing (Dalgic and Leeuw, 1994)
Differentiated needs (Toften and Hammervoll, 2013)		Segmentation (Hammermesh <i>et al.</i> , 1978)

Some of these suggested terms could be grouped together. For the *market component* this includes the terms small, narrow, homogenous, few customers/competitors, ignored/neglected and distinct set of needs/focused/differentiated needs in one group, and profitable, sufficient size, growth potential, and price premium in another.

First, regarding the terms related to niche size, it seems that small and narrow are often being used interchangeably. According to Lindsay (2007) a niche market does not need to be small in size, only narrow. This statement is supported by the fact that some firms, such as Johnson & Johnson (Dalgic and Leeuw, 1994) and Heinz (O'Reilly, 1995), operate in markets that normally are not being described as small (Toften and Hammervoll, 2013), but still have been associated with niche strategies. The term narrow appears thus to be more appropriate. It can further be claimed that when using the term small or narrow for describing the niche market, it is not actual size in terms of total revenue that is the essential part, but rather that:

1. there are few actors, in terms of customers and competitors, operating in this market
2. there exists a larger, referral market that in comparison makes the niche market small

The other suggestions, such as distinct set of needs, focused needs and homogeneous or differentiated needs (from other markets) can all support the notion that there is a narrow market with its separate needs and with few actors, existing alongside – but still related to – a larger, referral market.

Second, regarding the terms related to niche market characteristics, it can be claimed that the niche market is a specialized market compared to the referral market, which necessitates a price premium and a sufficient sales volume to cover higher production costs and to secure a profit.

For the *product component*, the suggested terms are few, and include a differentiated product (according to specialized needs) and, thus, a valued product. The term product differentiation is however, widely used to describe niche marketing, and is thus preferred as the most important term here.

For the *strategy component*, the activity of actively targeting and positioning this focused market is emphasized, often assuming that this is based on distinctive competences (Dalgic and Leeuw, 1994) or strategic capabilities (Toften and Hammervoll, 2010b). More generally, other characteristics related to niche marketing strategy have been suggested, such as:

Segmenting the market creatively, focusing activities only on areas where the firm has particular strengths that are especially valued (Hammermesh *et al.*, 1978).

Thinking and acting small (Hammermesh *et al.*, 1978).

Offering small production volumes, focusing on a few customers and avoiding markets with many competitors or a dominant competitor (Hezar *et al.*, 2006).

Building long-term and strong relationships (Dalgic and Leeuw, 1994).

Focusing on customer needs (Dalgic and Leeuw, 1994)

Treasure firm reputation and using word-of-mouth references (Dalgic and Leeuw, 1994).

Applying specialization and differentiation (Dalgic and Leeuw, 1994; Kotler, 1991).

Charging a premium price (Dalgic and Leeuw, 1994).

The term carving out appears to be a similar term, and another way of expressing this process or activity of directing its efforts towards this specific market. The important point here is that this is a conscious activity for capturing this market effectively, based on choice or need (Toften and Hammervoll, 2013).

Further, there is the term focusing on the protection of this narrow market. This term could either be a part of the strategic process, i.e. the process of building entry barriers, or it could be a part of the market component, describing how the niche market is separated from the referral market as such. This term has barely been discussed in the niche marketing research, but has been discussed more comprehensively in the strategic management literature (e.g. Porter, 1980). Further, partly protection is implicit in the definition of niche, as offered by Webster's dictionary (1992), where a recessed space or hollow is protected at three sides while open to the fourth, the larger referral space. Finally, the term relationship marketing seems more to be an effective way of operating in such a narrow market and possibly also a way of building protective barriers, rather than a necessary component of niche marketing as such.

Also related here is the term of specializing, which often is used when discussing niche strategy efforts. This specialization is in the niche marketing literature mostly applied to products or customers (Dalgic, 2006; Toften and Hammervoll, 2010a).

Overall, based on the suggested definitions and descriptions of niche marketing and this brief discussion, the following terms are regarded as most central for the term niche marketing and will thus be highlighted in the remaining part of this paper:

- narrow market
(i.e. few customers and competitors and a larger referral market in place)
- Price premium
(related to products at the referral market)
- Product differentiation
- Specialization
(on products and/or customers)
- Targeting and positioning efforts
- Building effective entry barriers
(in place or the process of building these)

These components could then be used to offer a new version of niche marketing definition, which will be followed for the remaining of this paper:

Offering a differentiated product to a narrow market giving a price premium, aided by effective targeting and positioning efforts based on advantages from specialization and entrance barriers.

Methodology

Research Design and Analysis

The purpose is to provide an in-depth study of firms of the Bordeaux wine industry, and thereby contribute to a grounded example to guide further research on niche marketing. As the literature review revealed, there is a need to answer three basic questions to advance the discipline; what is a niche market?, what is a niche product?, and what is niche marketing strategy? In the Bordeaux case we expect to uncover differences among *Châteaux* and non-*Châteaux* firms, tentative niche firms and mass-market firms respectively, their products and their marketing strategies.

A case study design is appropriate when the focus of the study is to answer “how” and “why” questions, when it is not possible to manipulate the behaviour of those involved, and when it is desired to cover contextual situations and the boundaries are not clear between the phenomenon and context (Yin, 2003).

Since the purpose of the research is to study and compare an observed situation with descriptions in the literature this could be termed a descriptive case study research (Yin, 2003).

The level of analysis will be the firms, and the analysis will compare their markets, products, and strategies, within the wine industry in the Bordeaux region.

Data Acquisition and Variables

The data collection will combine several methods, such as observations, secondary information, and interviews, according to recommendations for case studies (Eisenhardt, 1989). Central to the investigation, but not limited to, are the identified variables or characteristics of niche marketing as revealed in previous studies, such as narrow market, price premium, product differentiation, targeting and positioning efforts, specialization and market barriers.

Case Description

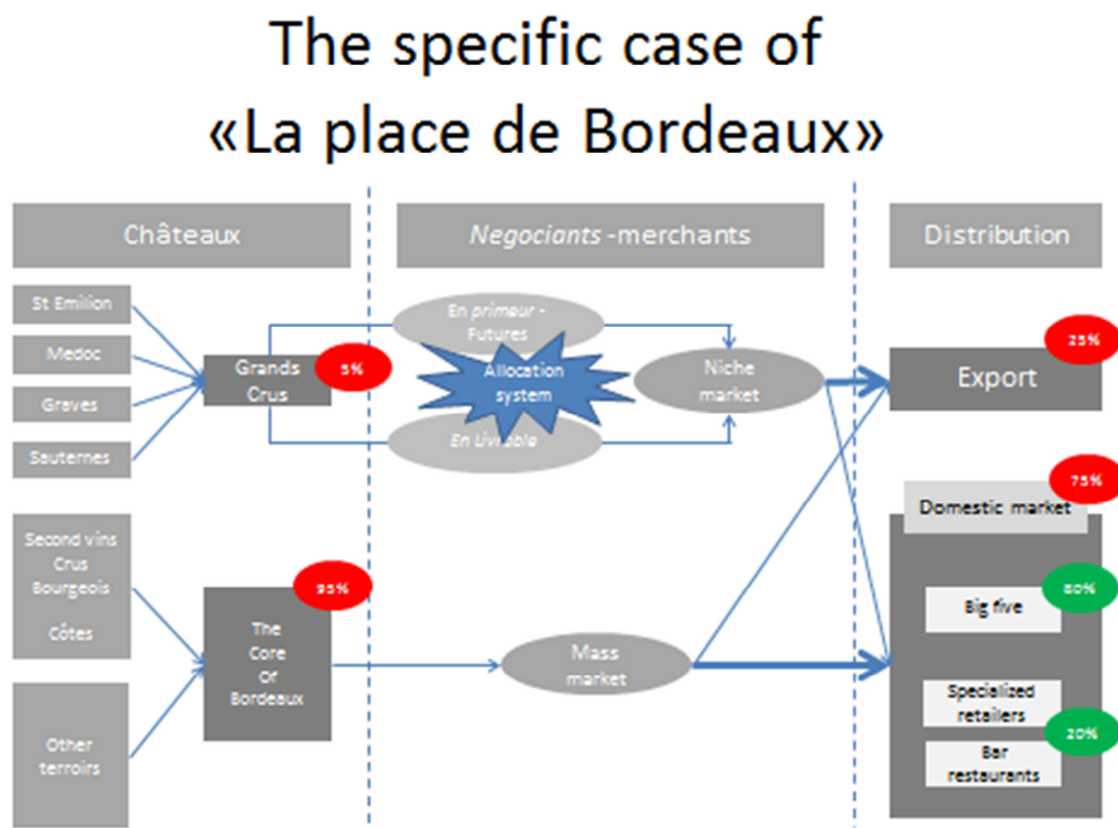
The Bordeaux wine market – *la Place de Bordeaux* – has two major categories of supplying firms. First, the *Châteaux*, most of which are members of the *Union des Grands Crus* (about 140 *Châteaux*) in five *terroirs* (Saint-Emilion, Medoc, Graves, Pessac-Léognan, Sauternes) and focusing on the high-quality market. Traditionally, *Châteaux* do not market their wine 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 the wine, which typically lasts 18 months, before having it delivered and, in turn, the trader markets the stock for buyers who usually are located abroad. This system provides a “win-win” situation, providing cash to the *Château* and a price guarantee to the merchant.

These firms, termed *Châteaux*, comply well to our applied definition of niche marketing; The firms offers a high-quality product to a narrow market which represents only five percent of the volume sold by Bordeaux producers, the firms target a specific group of customers and partners and position their products effectively as high quality products. Further, the firms specialize in terms of quality, size and customers types, and are well protected by their official classification in terms of Grand Crus status.

The second category consists of those who generally focus on wine with a modest quality and apply a more “mass-market” orientation. This category typically selects the wine, occasionally packages and bottles the bulk, promotes and sells the production at current market prices.

There are thus two main categories of merchants on *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 wine, and those who produce and sell their finished product at the spot market, often targeting the quality level required by large and uniform markets. In this paper the former category is (tentatively) termed *niche firms*, while the latter category is termed *mass-market firms*. See Figure 1 for an illustrated overview.

Figure 1. Overview of the “*La Place de Bordeaux*”



A sample will be derived from 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* (niche firms), and those who have a model based on a non-speculative purchase of wine directed at a wider market (mass-market firms).

Concluding Remarks

The purpose of this paper is to describe a case study suitable for examining whether the Bordeaux *Châteaux Grand Crus* producers can be defined as niche producers, and to identify and compare niche marketing strategies to mass-marketing strategies, according to the characteristics and definitions offered in the extant literature.

By comparing and discussing the relevant findings from this case study research with definitions and characteristics offered in the literature, we expect to be able to conclude whether it is appropriate to characterize the Bordeaux *Châteaux Grand Crus* producers as niche firms or not. Further, a precise description of the Bordeaux producers and markets, along with product descriptions in broad terms and the applied niche strategies, will be offered.

Additionally, it is expected to contribute to advancing niche marketing research literature by offering a more precise definition of niche marketing and its content, based on empirical data. By describing such a specific niche market this would establish a research-based practical way of identifying other niche markets in future research, its products and the participating firms' niche marketing strategies.

Expected Managerial Implications

By offering precise descriptions of the concept of niche marketing, its markets, products, and strategies, we expect then to be able to offer clear guidance to practitioners interested in pursuing niche marketing.

Also, depending on the actual findings, this could contribute to determine whether a PGI-certification (protected geographical indication) or other related and valued certification schemes (e.g. organic certification schemes; protected designation of origin – PDO; traditional specialties guaranteed - TSG) could work as indicators for niche markets. If so, this research could simplify the process of identifying some of the possible arenas for niche marketing.

Weaknesses and Future Research

The weaknesses with this conceptual study and the subsequent follow-up empirical study will be associated with the specific circumstances by studying only one industry and one geographic region, in one single country. This limited and specific data means that generalising the findings to a larger population is difficult.

For the future, additional research into other possible countries, regions or industries would strengthen niche marketing research, and thus for identifying niche producers and niche products, such as organic certification schemes or other cases, would enhance niche marketing.

Also, more work can be done with regard to operationalizations, measurements and, if possible, construct development. Developing a generally accepted definition will make it easier to develop useful operationalizations and measurements and thereby enable meaningful quantitative tests.

In addition, the issue of creating effective barriers to new entrants to a niche market needs further attention. This is a critical issue for effective and sustainable niche marketing. We do have substantial information about possible barriers, but few, if any, studies focus on this matter in a structured manner. There has been little attempt to identify them, establish what

makes them effective, determine how they are put to use in practice or how they can be sustained over some time.

Finally, although there is an abundance of niche marketing examples in the literature, there is still room for more applied examples of both success and failure stories in regards to niche marketing. More examples describing how firms have managed to carve out a narrow part of a market would be of particular interest.

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